

UNIVERSAL ELECTRONICS INC

Form 10-Q

November 09, 2009

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2009**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission File Number: 0-21044**

**UNIVERSAL ELECTRONICS INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

**Delaware  
(State or Other Jurisdiction  
of Incorporation or Organization)**

**33-0204817  
(I.R.S. Employer  
Identification No.)**

**6101 Gateway Drive  
Cypress, California  
(Address of Principal Executive Offices)**

**90630  
(Zip Code)**

**Registrant's Telephone Number, Including Area Code: (714) 820-1000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

|                                                     |                                                       |                                                |                                                       |
|-----------------------------------------------------|-------------------------------------------------------|------------------------------------------------|-------------------------------------------------------|
| Large accelerated<br>filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting<br>company <input type="checkbox"/> |
| (Do not check if a smaller reporting<br>company)    |                                                       |                                                |                                                       |

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 13,693,970 shares of Common Stock, par value \$0.01 per share, of the registrant were outstanding on November 5, 2009.

**UNIVERSAL ELECTRONICS INC.  
INDEX**

|                                                                                                      | <b>Page</b> |
|------------------------------------------------------------------------------------------------------|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>                                                          |             |
| <u>Item 1. Consolidated Financial Statements (Unaudited)</u>                                         | 3           |
| <u>Consolidated Balance Sheets</u>                                                                   | 3           |
| <u>Consolidated Income Statements</u>                                                                | 4           |
| <u>Consolidated Statements of Cash Flows</u>                                                         | 5           |
| <u>Notes to Consolidated Financial Statements</u>                                                    | 6           |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 25          |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | 34          |
| <u>Item 4. Controls and Procedures</u>                                                               | 34          |
| <b><u>PART II. OTHER INFORMATION</u></b>                                                             | 35          |
| <u>Item 1. Legal Proceedings</u>                                                                     | 35          |
| <u>Item 1A. Risk Factors</u>                                                                         | 35          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 35          |
| <u>Item 6. Exhibits</u>                                                                              | 36          |
| <u>Signature</u>                                                                                     | 37          |
| <u>Exhibit Index</u>                                                                                 | 38          |
| <u>EX-31.1</u>                                                                                       |             |
| <u>EX-31.2</u>                                                                                       |             |
| <u>EX-32</u>                                                                                         |             |

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Consolidated Financial Statements****UNIVERSAL ELECTRONICS INC.  
CONSOLIDATED BALANCE SHEETS**

(In thousands, except share-related data)

(Unaudited)

|                                                | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|------------------------------------------------|-----------------------------------|----------------------------------|
| <b>ASSETS</b>                                  |                                   |                                  |
| Current assets:                                |                                   |                                  |
| Cash and cash equivalents                      | \$ 30,099                         | \$ 75,238                        |
| Term deposit                                   | 49,125                            |                                  |
| Accounts receivable, net                       | 55,961                            | 59,825                           |
| Inventories, net                               | 43,628                            | 43,675                           |
| Prepaid expenses and other current assets      | 2,333                             | 3,461                            |
| Deferred income taxes                          | 2,407                             | 2,421                            |
| Total current assets                           | 183,553                           | 184,620                          |
| Equipment, furniture and fixtures, net         | 9,399                             | 8,686                            |
| Goodwill                                       | 13,770                            | 10,757                           |
| Intangible assets, net                         | 11,821                            | 5,637                            |
| Other assets                                   | 908                               | 609                              |
| Deferred income taxes                          | 7,620                             | 7,246                            |
| Total assets                                   | \$ 227,071                        | \$ 217,555                       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>    |                                   |                                  |
| Current liabilities:                           |                                   |                                  |
| Accounts payable                               | \$ 39,692                         | \$ 44,705                        |
| Accrued sales discounts, rebates and royalties | 5,451                             | 4,848                            |
| Accrued income taxes                           | 2,761                             | 2,334                            |
| Accrued compensation                           | 4,945                             | 3,617                            |
| Other accrued expenses                         | 7,874                             | 6,813                            |
| Total current liabilities                      | 60,723                            | 62,317                           |
| Long-term liabilities:                         |                                   |                                  |
| Deferred income taxes                          | 151                               | 130                              |
| Income tax payable                             | 1,442                             | 1,442                            |
| Other long-term liabilities                    | 124                               | 313                              |
| Total liabilities                              | 62,440                            | 64,202                           |

Commitments and contingencies

Stockholders' equity:

Edgar Filing: UNIVERSAL ELECTRONICS INC - Form 10-Q

Preferred stock, \$0.01 par value, 5,000,000 shares authorized; none issued or outstanding

Common stock, \$0.01 par value, 50,000,000 shares authorized; 19,040,652 and 18,715,833 shares issued at September 30, 2009 and December 31, 2008, respectively

Paid-in capital

Accumulated other comprehensive income

Retained earnings

|         |         |
|---------|---------|
| 190     | 187     |
| 126,768 | 120,551 |
| 1,936   | 750     |
| 113,149 | 104,314 |
| 242,043 | 225,802 |

Less cost of common stock in treasury, 5,340,021 and 5,070,319 shares at September 30, 2009 and December 31, 2008, respectively

|          |          |
|----------|----------|
| (77,412) | (72,449) |
|----------|----------|

Total stockholders' equity

|         |         |
|---------|---------|
| 164,631 | 153,353 |
|---------|---------|

Total liabilities and stockholders' equity

|            |            |
|------------|------------|
| \$ 227,071 | \$ 217,555 |
|------------|------------|

The accompanying notes are an integral part of these financial statements.

Table of Contents

**UNIVERSAL ELECTRONICS INC.**  
**CONSOLIDATED INCOME STATEMENTS**

(In thousands, except per share amounts)

(Unaudited)

|                                              | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|----------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                              | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Net sales                                    | \$ 83,182                                   | \$ 76,532   | \$ 232,611                                 | \$ 208,407  |
| Cost of sales                                | 57,112                                      | 51,604      | 159,609                                    | 137,532     |
| Gross profit                                 | 26,070                                      | 24,928      | 73,002                                     | 70,875      |
| Research and development expenses            | 2,251                                       | 1,985       | 6,411                                      | 6,302       |
| Selling, general and administrative expenses | 17,175                                      | 17,033      | 52,724                                     | 51,623      |
| Operating income                             | 6,644                                       | 5,910       | 13,867                                     | 12,950      |
| Interest income, net                         | 110                                         | 859         | 376                                        | 2,649       |
| Other income (expense), net                  | 25                                          | (417)       | (161)                                      | (237)       |
| Income before provision for income taxes     | 6,779                                       | 6,352       | 14,082                                     | 15,362      |
| Provision for income taxes                   | (2,556)                                     | (2,347)     | (5,247)                                    | (5,389)     |
| Net income                                   | \$ 4,223                                    | \$ 4,005    | \$ 8,835                                   | \$ 9,973    |
| Earnings per share:                          |                                             |             |                                            |             |
| Basic                                        | \$ 0.31                                     | \$ 0.29     | \$ 0.65                                    | \$ 0.71     |
| Diluted                                      | \$ 0.30                                     | \$ 0.28     | \$ 0.63                                    | \$ 0.68     |
| Shares used in computing earnings per share: |                                             |             |                                            |             |
| Basic                                        | 13,687                                      | 13,919      | 13,656                                     | 14,144      |
| Diluted                                      | 14,008                                      | 14,420      | 13,940                                     | 14,643      |

The accompanying notes are an integral part of these financial statements.

**Table of Contents**

**UNIVERSAL ELECTRONICS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

|                                                                                   | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                                   | <b>2009</b>                                | <b>2008</b> |
| Cash provided by operating activities:                                            |                                            |             |
| Net income                                                                        | \$ 8,835                                   | \$ 9,973    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                            |             |
| Depreciation and amortization                                                     | 5,019                                      | 4,365       |
| Provision for doubtful accounts                                                   | 181                                        | 107         |
| Provision for inventory write-downs                                               | 2,861                                      | 1,695       |
| Benefit for deferred income taxes                                                 | (297)                                      | (446)       |
| Tax benefit from exercise of stock options                                        | 374                                        | 416         |
| Excess tax benefit from stock-based compensation                                  | (198)                                      | (337)       |
| Shares issued for employee benefit plan                                           | 530                                        | 443         |
| Stock-based compensation                                                          | 3,184                                      | 3,307       |
| Changes in operating assets and liabilities:                                      |                                            |             |
| Accounts receivable                                                               | 4,474                                      | (1,600)     |
| Inventories                                                                       | (1,931)                                    | (8,060)     |
| Prepaid expenses and other assets                                                 | 883                                        | (814)       |
| Accounts payable and accrued expenses                                             | (3,241)                                    | 9,346       |
| Accrued income taxes                                                              | 202                                        | (250)       |
| Net cash provided by operating activities                                         | 20,876                                     | 18,145      |
| Cash used for investing activities:                                               |                                            |             |
| Term deposit                                                                      | (49,125)                                   |             |
| Acquisition of equipment, furniture and fixtures                                  | (4,142)                                    | (4,803)     |
| Acquisition of intangible assets                                                  | (988)                                      | (1,058)     |
| Acquisition of assets from Zilog, Inc.                                            | (9,502)                                    |             |
| Net cash used for investing activities                                            | (63,757)                                   | (5,861)     |
| Cash used for financing activities:                                               |                                            |             |
| Proceeds from stock options exercised                                             | 2,412                                      | 983         |
| Treasury stock purchased                                                          | (5,242)                                    | (21,565)    |
| Excess tax benefit from stock-based compensation                                  | 198                                        | 337         |
| Net cash used for financing activities                                            | (2,632)                                    | (20,245)    |
| Effect of exchange rate changes on cash                                           | 374                                        | (2,789)     |

|                                                  |           |           |
|--------------------------------------------------|-----------|-----------|
| Net decrease in cash and cash equivalents        | (45,139)  | (10,750)  |
| Cash and cash equivalents at beginning of period | 75,238    | 86,610    |
| Cash and cash equivalents at end of period       | \$ 30,099 | \$ 75,860 |

The accompanying notes are an integral part of these financial statements.

5

---

**Table of Contents**

**UNIVERSAL ELECTRONICS INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**Note 1: Basis of Presentation and Significant Accounting Policies**

In the opinion of management, the accompanying consolidated financial statements of Universal Electronics Inc. and its wholly-owned subsidiaries contain all the adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. All such adjustments are of a normal recurring nature and certain reclassifications have been made to prior-year amounts in order to conform to the current-year presentation. Information and footnote disclosures normally included in financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. As used herein, the terms Company, we, us and our refer to Universal Electronics Inc. and its subsidiaries, unless the context indicates to the contrary. Our results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Risk Factors, Management Discussion and Analysis of Financial Conditions and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk, and the Financial Statements and Supplementary Data and notes thereto included in Items 1A, 7, 7A, and 8, respectively, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

*Estimates, Judgments and Assumptions*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, judgments and assumptions, including those related to revenue recognition, allowance for sales returns and doubtful accounts, warranties, inventory valuation, business combination purchase price allocations, impairment of long-lived assets, intangible assets and goodwill, income taxes and stock-based compensation expense. Actual results may differ from our expectations. Based on our evaluation, our estimates, judgments and assumptions may be adjusted as more information becomes available. Any adjustment may be material.

See Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 for a summary of our significant accounting policies.

*New Accounting Pronouncements*

In October 2009, the FASB issued an Accounting Standards Update ( ASU ) to address accounting for arrangements that contain tangible products and software. The amendments in this update clarify what guidance should be utilized in allocating and measuring revenue for products that contain software that is more than incidental to the product as a whole. Currently, products that contain software that is more than incidental to the product as a whole are within the scope of software accounting guidance. Software accounting guidance requires a vendor to use vendor-specific objective evidence ( VSOE ) of selling price to separate the software from the product and account for the two elements as a multiple-element arrangement. A vendor must sell, or intend to sell, a particular element separately to assert VSOE for that element. Third-party evidence for selling price is not allowed under the software accounting model. If a vendor does not have VSOE for the undelivered elements in the arrangement, the revenue associated with both the delivered and undelivered elements is combined into one unit of accounting. Any revenue attributable to the delivered elements is then deferred and recognized at a later date, which in many cases is as the undelivered elements are delivered by the vendor. This ASU addresses concerns that the current accounting model does not always appropriately reflect the economics of the underlying transactions because no revenue is recognized for some products for which the vendor has already completed the related performance. In addition, this ASU addresses the concern that more software enabled products fall within the scope

## **Table of Contents**

of the current software accounting model than was originally intended because of ongoing technical advancements. The amendments in the update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. However if early adoption is elected we would be required to apply the amendments retrospectively from the beginning of the fiscal year of adoption and make specific disclosures. We have not yet adopted this ASU, and we are currently evaluating the impact it may have on our consolidated financial statements.

In October 2009, the FASB issued an ASU to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined accounting unit. Current accounting guidance requires a vendor to use VSOE or third-party evidence ( TPE ) of selling price to separate deliverables in a multiple-deliverable arrangement. VSOE of selling price is the price charged for a deliverable when it is sold separately or, for a deliverable not yet being sold separately, the price established by management with the appropriate authority. If a vendor does not have VSOE for the undelivered elements in the arrangement, the revenue associated with both the delivered and undelivered elements is combined into one unit of accounting. Any revenue attributable to the delivered products is then deferred and recognized at a later date, which in many cases is as the undelivered elements are delivered by the vendor. An exception to this guidance exists if the vendor has VSOE or TPE of selling price for the undelivered elements in the arrangement but not for the delivered elements. In those situations, the vendor uses the residual value method to allocate revenue to the delivered element, which results in the allocation of the entire discount in the arrangement, if any, to the delivered element. This ASU addresses concerns that the current accounting model does not always appropriately reflect the economics of the underlying transactions because sometimes no revenue is recognized for products for which the vendor has already completed the related performance. As a result of this amendment, multiple element arrangements will be separated in more circumstances than under the existing accounting model. This amendment establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price utilized for each deliverable will be based on VSOE if available, TPE if VSOE is not available, or estimated selling price if neither VSOE or TPE evidence is available. The residual method is eliminated. The amendments in the update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. However if early adoption is elected we would be required to apply the amendments retrospectively from the beginning of the fiscal year of adoption and make specific disclosures. We have not yet adopted this ASU, and we are currently evaluating the impact it may have on our consolidated financial statements.

### *Recently Adopted Accounting Pronouncements*

In December 2007, the FASB issued guidance that established principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. This guidance also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The adoption of this guidance will affect the total purchase price of future acquisitions, as acquisition costs will now be expensed, and the allocation of fair value to specific assets and liabilities will be different. This guidance was effective for us January 1, 2009. As a result of adopting this guidance we recognized \$0 and \$1.1 million of acquisition costs during the three and nine months ended September 30, 2009, respectively, related to our purchase of assets from Zilog, Inc. The acquisition costs recognized during the nine months ended September 30, 2009 included \$0.1 million of acquisition costs that were capitalized at December 31, 2008.

In addition to the recently adopted accounting standard above, we adopted the following accounting standards during the first nine months of 2009, none of which had a material effect on our consolidated financial position and results of operations:

In September 2009, the FASB issued an ASU to address the need for additional implementation guidance on accounting for uncertainty in income taxes. We adopted this guidance during the quarter ended September 30, 2009.

In August 2009, the FASB issued an ASU addressing the measurement of liabilities at fair value and reaffirmed the practice of measuring fair value using quoted market prices when a liability is traded as an asset. We adopted this guidance during the quarter ended September 30, 2009.



**Table of Contents**

In June 2009, the FASB issued new guidance establishing the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP and identified the framework for selecting the principles to utilize in the preparation of financial statements for nongovernmental entities. We adopted this guidance during the quarter ended September 30, 2009.

In May 2009, the FASB issued guidance establishing general accounting standards and disclosure for subsequent events. We adopted this standard during the second quarter of 2009. In accordance with this guidance, we have evaluated subsequent events through the date and time the financial statements were issued on November 9, 2009.

In April 2009, the FASB issued additional guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased and identifying circumstances that indicate a transaction is not orderly. We adopted this guidance during the quarter ended June 30, 2009.

In April 2009, the FASB issued new guidance requiring disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. We adopted this guidance during the quarter ended June 30, 2009.

In April 2009, the FASB issued new guidance to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. We adopted this guidance during the quarter ended March 31, 2009.

In December 2008, the FASB issued guidance requiring employers to disclose certain information about plan assets of a defined benefit pension or other postretirement plan. We adopted this guidance during the quarter ended March 31, 2009.

In November 2008, the FASB issued guidance clarifying how to account for defensive intangible assets subsequent to initial measurement. We adopted this guidance during the quarter ended March 31, 2009.

In June 2008, the FASB issued new guidance addressing whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. We adopted this guidance during the quarter ended March 31, 2009.

In April 2008, the FASB issued guidance amending the factors that should be considered while developing renewal or extension assumptions to be utilized when determining the useful life of a recognized intangible asset. We adopted this guidance during the quarter ended March 31, 2009.

In March 2008, the FASB issued guidance that amended and expanded the disclosure requirements for derivative instruments and hedging activities to provide improved transparency into their uses and financial statement impact. We adopted this guidance during the quarter ended March 31, 2009.

In December 2007, the FASB issued new guidance changing the accounting for, and the financial statement presentation of, noncontrolling equity interests in a consolidated subsidiary. We adopted this guidance during the quarter ended March 31, 2009.

In November 2007, the FASB issued guidance defining collaborative arrangements and establishing reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. We adopted this guidance during the quarter ended March 31, 2009.

In September 2006, the FASB issued new guidance on fair value measurements. This guidance clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures of fair value measurements. In February 2008, the FASB delayed the effective date of the fair value measurements guidance for certain non-financial assets and liabilities. We adopted this new guidance for financial assets and liabilities during the quarter ended March 31, 2008. We adopted this new guidance for non-financial assets and liabilities during the quarter ended March 31, 2009.

**Table of Contents****Note 2: Stock-Based Compensation**

Stock-based compensation expense for each employee and director is presented in the same income statement caption as their cash compensation. We recorded \$1.1 million and \$1.0 million of pre-tax stock-based compensation expense during the three months ended September 30, 2009 and 2008, respectively. During the nine months ended September 30, 2009 and 2008, we recorded \$3.2 million and \$3.3 million, respectively, of pre-tax stock-based compensation expense.

Stock-based compensation expense by income statement caption for the three and nine months ended September 30, 2009 and 2008 was the following:

| (In thousands)                                       | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|------------------------------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                                      | 2009                                | 2008   | 2009                               | 2008     |
| Cost of sales                                        | \$ 10                               | \$ 4   | \$ 24                              | \$ 13    |
| Research and development                             | 114                                 | 76     | 322                                | 281      |
| Selling, general and administrative                  | 980                                 | 916    | 2,838                              | 3,013    |
| Stock-based compensation expense before income taxes | \$ 1,104                            | \$ 996 | \$ 3,184                           | \$ 3,307 |

Selling, general and administrative expense ( SG&A ) includes stock-based compensation related to restricted stock awards granted to outside directors of \$0.1 million for the three months ended September 30, 2009 and 2008. During the nine months ended September 30, 2009 and 2008, stock-based compensation related to restricted stock awards granted to outside directors was \$0.4 million and \$0.5 million, respectively.

SG&A also includes pre-tax stock-based compensation related to stock option awards granted to outside directors of \$0.1 million for the three months ended September 30, 2009 and 2008. During the nine months ended September 30, 2009 and 2008, pre-tax stock-based compensation related to options granted to directors was \$0.2 million.

The income tax benefit from the recognition of stock-based compensation for the three months ended September 30, 2009 and 2008 was \$0.4 million and \$0.4 million, respectively. During the nine months ended September 30, 2009 and 2008, the income tax benefit from the recognition of stock-based compensation was \$1.1 million and \$1.2 million, respectively.

**Stock Option Grants**

Compensation expense related to stock option awards is determined based on the fair value of the awards on the grant date. We recognize the compensation expense related to stock option awards net of estimated forfeitures over the service period of the award, which is the option vesting term ranging from three to four years. We estimate the annual forfeiture rate based upon our historical forfeitures. The compensation expense recognized for stock option awards at any date is equal to the portion of the grant-date fair value that is vested on that date.

We estimate the fair value of stock option awards using the Black-Scholes option pricing model utilizing the following assumptions and weighted average fair values:

|                                                      | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|------------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                                      | 2009                                | 2008    | 2009                               | 2008    |
| Weighted average fair value of grants <sup>(1)</sup> | \$                                  | \$ 8.75 | \$ 7.02                            | \$ 9.07 |
| Risk-free interest rate                              |                                     | 3.35%   | 1.92%                              | 2.75%   |
| Expected volatility                                  |                                     | 41.50%  | 49.48%                             | 40.85%  |
| Expected life in years                               |                                     | 5.14    | 4.85                               | 4.74    |

- (1) The fair value calculation was based on stock options granted

during each  
respective  
period.

During the nine months ended September 30, 2009, the Board of Directors granted 233,400 stock options under various stock incentive plans. On March 10, 2009, 185,900 stock options were granted to our executives subject to a four-year vesting period (one-sixteenth each quarter). In addition to the March 10, 2009 grants, 47,500 stock options subject to a four-year vesting period (one-sixteenth each quarter) were granted to new hires on various dates during the nine months ended September 30, 2009. The aggregate grant date fair value of these awards was \$1.6 million.

**Table of Contents**

During the three and nine months ended September 30, 2009, the stock-based compensation expense included in SG&A related to these awards was \$0.1 million and \$0.2 million, respectively.

Stock option activity during the nine months ended September 30, 2009 was the following:

|                                                   | Number of<br>Options<br>(In<br>thousands) | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term<br>(In years) | Aggregate<br>Intrinsic<br>Value<br>(In<br>thousands) |
|---------------------------------------------------|-------------------------------------------|-------------------------------------------|------------------------------------------------------------------------|------------------------------------------------------|
| Outstanding at December 31, 2008                  | 1,729                                     | \$ 17.64                                  |                                                                        |                                                      |
| Granted                                           | 233                                       | 15.89                                     |                                                                        |                                                      |
| Exercised                                         | (222)                                     | 10.86                                     |                                                                        | \$ 1,915                                             |
| Forfeited/cancelled/expired                       | (6)                                       | 25.91                                     |                                                                        |                                                      |
| Outstanding at September 30, 2009                 | 1,734                                     | \$ 18.24                                  | 5.47                                                                   | \$ 6,299                                             |
| Vested and expected to vest at September 30, 2009 | 1,698                                     | \$ 18.18                                  | 5.40                                                                   | \$ 6,205                                             |
| Exercisable at September 30, 2009                 | 1,285                                     | \$ 17.22                                  | 4.37                                                                   | \$ 5,315                                             |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that option holders would have received had all option holders exercised their options on September 30, 2009. The aggregate intrinsic value is the difference between the closing price of Universal Electronics Inc.'s common stock on the last trading day of the third quarter of 2009 and the option exercise price, multiplied by the number of in-the-money options. The total intrinsic value of options exercised for the three months ended September 30, 2009 and 2008, was \$0.6 million and \$0.7 million, respectively. The total intrinsic value of options exercised for the nine months ended September 30, 2009 and 2008, was \$1.9 million and \$1.4 million, respectively.

At September 30, 2009, there was \$3.2 million of unrecognized pre-tax stock-based compensation expense related to non-vested stock options which we expect to recognize over a weighted-average period of 2.4 years.

**Restricted Stock Grants**

Compensation expense related to restricted stock awards is determined based on the fair value of the shares awarded on the grant date. We determined the fair value of the restricted stock utilizing the average of the high and low trade prices of our Company's shares on the grant date. We recognize the compensation expense over the service period of the award, which is the vesting term ranging from one to four years. The compensation expense recognized for restricted stock awards at any date is equal to the portion of the grant-date fair value that is vested on that date. During the nine months ended September 30, 2009, the Compensation Committee and Board of Directors granted 298,170 shares of restricted stock to employees under the 2006 Stock Incentive Plan. The first grant of 77,146 shares, dated February 12, 2009, is subject to a three-year vesting period (5% each quarter during the first two years and 15% each quarter during the third year). The second grant of 24,723 shares, dated March 4, 2009, is subject to a two-year vesting period (12.5% each quarter). The third and fourth grants of 147,693 and 3,108 shares, dated March 10, 2009 and August 18, 2009, respectively, are subject to a three-year vesting period (8.75% each quarter during the first two years and 7.5% each quarter during the third year). The fifth grant of 40,500 shares, dated March 10, 2009, is subject to a four-year vesting period (6.25% each quarter). In addition to the grants above, 5,000 shares of restricted stock, subject to a four-year vesting period (6.25% each quarter), were granted to new hires. The aggregate grant date fair value of these awards was \$4.5 million. The pre-tax stock-based compensation expense included in SG&A related to these awards was \$0.4 million and \$0.8 million for the three and nine months ended September 30, 2009, respectively. In addition to the employee grants above, 25,000 shares of restricted stock were granted to our outside directors on July 1, 2009 as a part of their annual compensation package. These shares are subject to a one-year vesting period.

(25% each quarter). The aggregate grant date fair value of these awards was \$0.5 million.

**Table of Contents**

The activity of non-vested restricted stock awards during the nine months ended September 30, 2009 was the following:

|                                  | <b>Shares<br/>Granted<br/>(In<br/>thousands)</b> | <b>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|----------------------------------|--------------------------------------------------|------------------------------------------------------------|
| Non-vested at December 31, 2008  | 90                                               | \$23.23                                                    |
| Granted                          | 323                                              | 15.53                                                      |
| Vested                           | (97)                                             | 18.77                                                      |
| Forfeited                        |                                                  |                                                            |
| Non-vested at September 30, 2009 | 316                                              | \$16.73                                                    |

As of September 30, 2009, we expect to recognize \$5.2 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average period of 2.1 years.

**Note 3: Cash, Cash Equivalents, and Term Deposit**

The following table sets forth our cash, cash equivalents, and term deposit that were accounted for at fair value on a recurring basis as of September 30, 2009:

|                           |                                        | <b>Fair Value Measurement Using</b>                                                                      |                                                                      |                                                              |
|---------------------------|----------------------------------------|----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|
|                           |                                        | <b>Quoted<br/>Prices<br/>in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Asset<br/>(Level<br/>1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| <b>(In thousands)</b>     | <b>Quarter<br/>Ended<br/>9/30/2009</b> |                                                                                                          |                                                                      |                                                              |
| <b>Description</b>        |                                        |                                                                                                          |                                                                      |                                                              |
| Cash and cash equivalents | \$ 30,099                              | \$ 30,099                                                                                                | \$                                                                   | \$                                                           |
| Term deposit              | 49,125                                 | 49,125                                                                                                   |                                                                      |                                                              |
|                           | \$ 79,224                              | \$ 79,224                                                                                                | \$                                                                   | \$                                                           |

Cash and cash equivalents include cash accounts and all investments purchased with initial maturities of three months or less. We maintain cash and cash equivalents with various financial institutions located in many different geographic regions. As part of our risk management processes, we perform periodic evaluations of the relative credit standing of these financial institutions. We attempt to mitigate our exposure to interest rate, liquidity, credit and other relevant risks by placing our cash and cash equivalents with financial institutions we believe are adequately capitalized. We have not sustained credit losses from instruments held at financial institutions.

At September 30, 2009, we had approximately \$13.6 million, \$11.0 million, \$3.6 million, and \$1.9 million of cash and cash equivalents in the United States, Europe, Asia and Cayman Islands, respectively. At December 31, 2008, we had approximately \$8.4 million, \$6.1 million, and \$60.7 million of cash and cash equivalents in the United States, Europe, and Asia, respectively.

At September 30, 2009, we had a six month term deposit cash account at Wells Fargo Bank denominated in Hong Kong dollars. The term began on July 21, 2009 and will end on January 21, 2010. The term deposit earns interest at an

annual rate of 0.57%. There are no penalties assessed for early withdrawal. The deposit amount and accrued interest related to this account as of September 30, 2009 was \$49.1 million and \$0.4 million, respectively.

**Note 4: Accounts Receivable and Revenue Concentrations**

Accounts receivable, net consisted of the following at September 30, 2009 and December 31, 2008:

| <b>(In thousands)</b>            | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|----------------------------------|-----------------------------------|----------------------------------|
| Trade receivable, gross          | \$ 59,680                         | \$ 65,014                        |
| Allowance for doubtful accounts  | (2,499)                           | (2,439)                          |
| Allowance for sales returns      | (1,586)                           | (2,823)                          |
| Trade receivable, net            | 55,595                            | 59,752                           |
| Other receivables <sup>(1)</sup> | 366                               | 73                               |
| Accounts receivable, net         | \$ 55,961                         | \$ 59,825                        |

<sup>(1)</sup> Other receivables as of September 30, 2009 includes \$56 thousand in sales tax and VAT receivable and \$235 thousand reimbursable from a vendor for quality issues. As of September 30, 2009 and December 31, 2008 other receivables include a \$73 thousand discount receivable from a vendor for tooling.

**Table of Contents***Significant Customers*

During the three and nine months ended September 30, 2009 and 2008, we had net sales to two significant customers that amounted to more than 10% of our total net sales.

Net sales to one significant customer, when combined with its sub-contractors, totaled \$16.6 million and \$16.7 million, accounting for 20.0% and 21.9% of our total net sales, for the three months ended September 30, 2009 and 2008, respectively. Net sales made to this customer and its subcontractors were \$53.9 million and \$39.8 million, representing 23.2% and 19.1% of our total net sales during the nine months ended September 30, 2009 and 2008, respectively. Trade receivables with this customer and its sub-contractors amounted to \$8.5 million and \$11.7 million, or 15.2% and 19.5% of our accounts receivable, net at September 30, 2009 and December 31, 2008, respectively.

Net sales to another significant customer, when combined with its sub-contractors, totaled \$9.2 million and \$10.1 million, accounting for 11.1% and 13.2% of our total net sales, for the three months ended September 30, 2009 and 2008, respectively. Net sales to this customer and its subcontractors was \$24.6 million and \$21.6 million, representing 10.6% and 10.3% of our total net sales during the nine months ended September 30, 2009 and 2008, respectively. Trade receivables with this customer amounted to \$3.7 million and \$9.1 million, or 6.6% and 15.3% of our accounts receivable, net at September 30, 2009 and December 31, 2008, respectively.

The loss of any of these customers, or our inability to maintain order volume with them, would have a material adverse effect on our financial condition, results of operations and cash flows.

**Note 5: Inventories and Significant Suppliers***Inventories*

Inventories consist of remote controls, audio-video accessories and the related component parts. Inventoriable costs include materials, labor, freight-in and manufacturing overhead related to the purchase and production of inventories. We value our inventories at the lower of cost or market. Cost is determined using the first-in, first-out method. We attempt to carry inventories in amounts necessary to satisfy our customer requirements on a timely basis.

Product innovations and technological advances may shorten a given product's life cycle. We continually monitor our inventories to identify any excess or obsolete items on hand. We write down our inventories for estimated excess and obsolescence in an amount equal to the difference between the cost of the inventories and its estimated market value. These estimates are based upon management's judgment about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional write-downs may be required.

Inventories, net consisted of the following:

|                             | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|-----------------------------|-----------------------------------|----------------------------------|
| <b>(In thousands)</b>       |                                   |                                  |
| Components                  | \$ 7,913                          | \$ 7,879                         |
| Finished goods              | 37,880                            | 37,331                           |
| Reserve for inventory scrap | (2,165)                           | (1,535)                          |
| Inventories, net            | \$ 43,628                         | \$ 43,675                        |

During the three months ended September 30, 2009 and 2008, inventory provisions totaled \$0.7 million and \$0.7 million, respectively. During the nine months ended September 30, 2009 and 2008, inventory provisions totaled \$2.9 million and \$1.7 million, respectively. Inventory provisions are a normal part of our business and result primarily from product life cycle estimation variances.

**Table of Contents***Significant Suppliers*

Most of the components used in our products are available from multiple sources. We have elected to purchase integrated circuits ( IC ), used principally in our wireless control products, from two main sources. Purchases from one of these suppliers amounted to more than 10% of total inventory purchases. Purchases from this supplier amounted to \$7.3 million and \$7.2 million, representing 14.5% and 14.2% of total inventory purchases for the three months ended September 30, 2009 and 2008, respectively. Purchases from this supplier amounted to \$20.9 million and \$21.1 million, representing 14.7% and 15.6% of total inventory purchases for the nine months ended September 30, 2009 and 2008, respectively. Accounts payable with this supplier amounted to \$4.3 million and \$3.6 million, representing 10.8% and 8.1% of total accounts payable at September 30, 2009 and December 31, 2008, respectively. During the three months ended September 30, 2009, purchases from three of our component and finished good suppliers amounted to more than 10% of total inventory purchases. Purchases from these three suppliers amounted to \$13.0 million, \$11.4 million and \$6.7 million, representing 26.0%, 22.8% and 13.4%, respectively, of total inventory purchases for the three months ended September 30, 2009. During the three months ended September 30, 2008, purchases from these three suppliers amounted to \$14.1 million, \$9.7 million and \$4.6 million, representing 27.8%, 19.2% and 9.1%, respectively, of total inventory purchases.

During the nine months ended September 30, 2009, purchases from three of our component and finished good suppliers amounted to more than 10% of total inventory purchases. Purchases from these three suppliers amounted to \$36.3 million, \$32.9 million and \$21.2 million, representing 25.5%, 23.1% and 14.9%, respectively, of total inventory purchases for the nine months ended September 30, 2009. During the nine months ended September 30, 2008, purchases from these three suppliers amounted to \$38.9 million, \$22.8 million and \$12.6 million, representing 28.8%, 16.9% and 9.3%, respectively, of total inventory purchases.

Accounts payable with these component and finished good suppliers amounted to \$9.0 million, \$11.3 million and \$5.9 million, representing 22.6%, 28.5% and 14.8%, respectively, of total accounts payable at September 30, 2009. At December 31, 2008, accounts payable with the same suppliers amounted to \$11.0 million, \$15.6 million and \$5.4 million, representing 24.7%, 35.0% and 12.0%, respectively, of total accounts payable. No other component and finished good suppliers accounted for more than 10% of total inventory purchases during the three or nine months ended September 30, 2009 or 2008.

We have identified alternative sources of supply for these ICs, components, and finished goods; however, there can be no assurance that we will be able to continue to obtain these inventory purchases on a timely basis. We generally maintain inventories which could be used in part to mitigate, but not eliminate, delays resulting from supply interruptions. An extended interruption, shortage or termination in the supply of any of the components used in our products, or a reduction in their quality or reliability, or a significant increase in prices of components, would have an adverse effect on our financial condition, results of operations and cash flows.

**Note 6: Income Taxes**

We use our estimated annual effective tax rate to determine our provision for income taxes for interim periods. The income tax provision for the third quarter 2009 is computed by taking the estimated annual effective tax rate and multiplying it by the year-to-date pre-tax book income, and subtracting the amount of provision recorded during the prior quarter. We recorded income tax expense of \$2.6 million and \$2.3 million for the three months ended September 30, 2009 and 2008, respectively. Our effective tax rate was 37.7% and 37.0% during the three months ended September 30, 2009 and 2008, respectively. We recorded income tax expense of \$5.2 million and \$5.4 million for the nine months ended September 30, 2009 and 2008, respectively. Our annual estimated effective tax rate was 37.3% and 35.1% during the nine months ended September 30, 2009 and 2008, respectively. The increase in our effective tax rate during the nine months ended September 30, 2009 is the result of a higher percentage of income earned in higher tax rate jurisdictions coupled with lower federal research and development tax credits.

At September 30, 2009, we had gross unrecognized tax benefits of approximately \$9.1 million, including interest and penalties, of which approximately \$8.3 million of this amount would affect the annual effective tax rate, if these tax benefits are realized. Further, we are unaware of any positions for which it is reasonably possible that the total

**Table of Contents**

amounts of unrecognized tax benefits will significantly increase within the next twelve months. However, based on federal, state and foreign statute expirations in various jurisdictions, we anticipate a decrease in unrecognized tax benefits of approximately \$0.1 million within the next twelve months.

We have elected to classify interest and penalties as a component of tax expense. Accrued interest and penalties were \$1.5 million at September 30, 2009 and \$1.2 million at December, 31, 2008 and are included in the unrecognized tax benefits.

We file income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. As of September 30, 2009, the open statutes of limitations in our significant tax jurisdictions are as follows: federal and state for 2004 through 2008, and non-U.S. for 2001 through 2008. Unrecognized tax benefits at September 30, 2009 of \$6.1 million, including related interest of \$1.1 million, are classified as short term as we expect to settle certain foreign audits during 2009. The remainder of the gross unrecognized tax benefits of \$3.0 million is classified as long term as we do not anticipate payment of cash related to those unrecognized tax benefits within one year.

**Note 7: Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares, which includes the dilutive effect of stock options and restricted stock grants. Dilutive potential common shares for all periods presented are computed utilizing the treasury stock method.

In the computation of diluted earnings per common share for the three months ended September 30, 2009 and 2008, we have excluded 749,025 and 417,492 stock options, respectively, with exercise prices greater than the average market price of the underlying common stock, because their inclusion would have been anti-dilutive. Furthermore, for the three months ended September 30, 2009 and 2008, we have excluded 264,666 and 121,322 of unvested shares of restricted stock, respectively, whose combined unamortized fair value and excess tax benefits were greater in each of those periods than the average market price of the underlying common stock, as their effect would be anti-dilutive. In the computation of diluted earnings per common share for the nine months ended September 30, 2009 and 2008, we have excluded 906,387 and 396,036 stock options, respectively, with exercise prices greater than the average market price of the underlying common stock, because their inclusion would have been anti-dilutive. Furthermore, for the nine months ended September 30, 2009 and 2008, we have excluded 238,238 and 106,029 of unvested shares of restricted stock, respectively, whose combined unamortized fair value and excess tax benefits were greater in each of those periods than the average market price of the underlying common stock, as their effect would be anti-dilutive. Basic and diluted earnings per share for the three and nine months ended September 30, 2009 and 2008 are calculated as follows:

| (In thousands, except per-share amounts)              | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|-------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                       | 2009                                | 2008     | 2009                               | 2008     |
| <b>BASIC</b>                                          |                                     |          |                                    |          |
| Net income                                            | \$ 4,223                            | \$ 4,005 | \$ 8,835                           | \$ 9,973 |
| Weighted-average common shares outstanding            | 13,687                              | 13,919   | 13,656                             | 14,144   |
| Basic earnings per share                              | \$ 0.31                             | \$ 0.29  | \$ 0.65                            | \$ 0.71  |
| <b>DILUTED</b>                                        |                                     |          |                                    |          |
| Net income                                            | \$ 4,223                            | \$ 4,005 | \$ 8,835                           | \$ 9,973 |
| Weighted-average common shares outstanding for basic  | 13,687                              | 13,919   | 13,656                             | 14,144   |
| Dilutive effect of stock options and restricted stock | 321                                 | 501      | 284                                | 499      |

Edgar Filing: UNIVERSAL ELECTRONICS INC - Form 10-Q

|                                                               |         |         |         |         |
|---------------------------------------------------------------|---------|---------|---------|---------|
| Weighted-average common shares outstanding on a diluted basis | 14,008  | 14,420  | 13,940  | 14,643  |
| Diluted earnings per share                                    | \$ 0.30 | \$ 0.28 | \$ 0.63 | \$ 0.68 |

14

---

**Table of Contents****Note 8: Comprehensive Income**

The components of comprehensive income are listed below:

| (In thousands)                               | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |          |
|----------------------------------------------|-------------------------------------|------------|------------------------------------|----------|
|                                              | 2009                                | 2008       | 2009                               | 2008     |
| Net income                                   | \$ 4,223                            | \$ 4,005   | \$ 8,835                           | \$ 9,973 |
| Other comprehensive income (loss):           |                                     |            |                                    |          |
| Foreign currency translations <sup>(1)</sup> | 970                                 | (11,514)   | 1,186                              | (3,931)  |
| Comprehensive income (loss):                 | \$ 5,193                            | \$ (7,509) | \$ 10,021                          | \$ 6,042 |

- <sup>(1)</sup> The foreign currency translation gain of \$1.2 million for the nine months ended September 30, 2009 was due to the weakening of the U.S. dollar against the Euro. The U.S. dollar/Euro spot rate was 1.46 and 1.39 at September 30, 2009 and December 31, 2008, respectively. The foreign currency translation loss of \$3.9 million for the nine months ended September 30, 2008 was due to the strengthening of the U.S. dollar against the Euro. The U.S. dollar/Euro spot rate was 1.41 and 1.46 at

September 30,  
2008 and  
December 31,  
2007,  
respectively.

**Note 9: Revolving Credit Line**

We have a \$15 million unsecured revolving credit line ( Credit Facility ) with Comerica Bank, which expired on August 31, 2009. On August 31, 2009, we received a three month extension from Comerica. Under the existing Credit Facility, the interest payable is variable and is based on the bank's cost of funds or 12-month LIBOR plus a fixed margin of 1.25%. The interest rate in effect as of September 30, 2009 using 12-month LIBOR plus a fixed margin of 1.25% was 2.52%. We pay a commitment fee ranging from zero to a maximum rate of 0.25% per year on the unused portion of the credit line depending on the amount of cash investment retained with Comerica during each quarter. At September 30, 2009, the commitment fee rate was 0.25%. Under the terms of the Credit Facility, dividend payments are allowed for up to 100% of the prior fiscal year's net income, to be paid within 90 days of the current fiscal year end. We are subject to certain financial covenants related to our net worth, quick ratio and net income. Amounts available for borrowing under the Credit Facility are reduced by the outstanding balance of import letters of credit. As of September 30, 2009, we did not have any outstanding import letters of credit and the available balance on the line of credit was \$15 million. Furthermore, as of September 30, 2009, we were in compliance with all financial covenants required by the Credit Facility.

Under our Credit Facility, we were authorized to acquire up to 2,000,000 shares of our common stock in the open market. Effective February 26, 2009, Comerica amended our Credit Facility by authorizing an additional 1,000,000 shares to be repurchased, capped at a maximum cost of \$13.0 million. Given our closing stock price at September 30, 2009, we were authorized to repurchase 2,636,630 shares. As of September 30, 2009, we have purchased 1,974,670 shares of our common stock, leaving 661,960 shares available for purchase under the Credit Facility.

We are currently negotiating a new credit agreement. Presently, we have no borrowings under our existing Credit Facility, however we cannot make any assurances that we will not need to borrow amounts under this facility or that a new facility will be extended to us under comparable terms or at all. If our current Credit Facility or any other credit facility is not available to us at a time when we need to borrow, we would have to use our cash reserves, which may have a material adverse effect on our financial condition, results of operations, and cash flows.

**Table of Contents****Note 10: Other Accrued Expenses**

The components of other accrued expenses at September 30, 2009 and December 31, 2008 are listed below:

| <b>(In thousands)</b>             | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|-----------------------------------|-----------------------------------|----------------------------------|
| Accrued freight                   | \$ 1,875                          | \$ 1,846                         |
| Accrued professional fees         | 1,234                             | 1,245                            |
| Accrued advertising and marketing | 871                               | 644                              |
| Deferred income taxes             | 404                               | 356                              |
| Accrued third-party commissions   | 286                               | 262                              |
| Accrued sales tax and VAT         | 452                               | 410                              |
| Sales tax to be refunded          | 503                               |                                  |
| Other                             | 2,249                             | 2,050                            |
| <br>Total other accrued expenses  | <br>\$ 7,874                      | <br>\$ 6,813                     |

**Note 11: Treasury Stock**

During the nine months ended September 30, 2009 and 2008, we repurchased 288,452 and 913,714 shares of our common stock at a cost of \$5.2 million and \$21.6 million, respectively. Repurchased shares are recorded as shares held in treasury at cost. We generally hold these shares for future use as our management and Board of Directors deem appropriate, which may include compensating outside directors and executives of the Company. During the nine months ended September 30, 2009 and 2008, we issued 18,750 and 17,188 shares, respectively, to outside directors for services performed (see Note 2).

**Note 12: Goodwill and Intangible Assets***Goodwill*

In accordance with U.S. GAAP, the unit of accounting for goodwill is at a level of reporting referred to as a reporting unit. A reporting unit is defined as either (1) an operating segment as defined by U.S. GAAP, or (2) one level below an operating segment referred to as a component. Our domestic and international components are reporting units within our single operating segment Core Business. Goodwill is not amortized, but is evaluated for impairment as of December 31st of each year and between annual evaluations, if events occur or circumstances change indicating that it is more likely than not the fair value of a reporting unit has been reduced below its carrying amount.

Goodwill related to the domestic component was the result of our acquisition of a remote control company in 1998, a software company (SimpleDevices, Inc.) in 2004 and certain assets and intellectual property from Zilog, Inc. in the first quarter of 2009. Goodwill related to our international component resulted from the acquisition of remote control distributors in the UK in 1998, Spain in 1999 and France in 2000.

The goodwill amounts related to our domestic and international components at September 30, 2009 and December 31, 2008 were the following:

| <b>(In thousands)</b>        | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|------------------------------|-----------------------------------|----------------------------------|
| Goodwill:                    |                                   |                                  |
| United States <sup>(1)</sup> | \$ 11,216                         | \$ 8,314                         |
| International <sup>(2)</sup> | 2,554                             | 2,443                            |
| <br>Total                    | <br>\$ 13,770                     | <br>\$ 10,757                    |

- (1) During the first quarter of 2009, we acquired certain assets and intellectual property from Zilog, Inc. which resulted in \$2.9 million of goodwill. Refer to Note 16 for further discussion related to the purchase.
- (2) The difference in international goodwill reported at September 30, 2009, as compared to the goodwill reported at December 31, 2008, is the result of fluctuations in the foreign currency exchange rates used to translate the balance into U.S. dollars.

**Table of Contents***Intangible Assets*

Our other intangible assets consist primarily of distribution rights, patents, trademarks, purchased technologies, capitalized software development costs, and customer relationships. Capitalized amounts related to our patents represent external legal costs incurred for their applications and maintenance. Our intangible assets, other than capitalized software development, are amortized utilizing the straight-line method over our estimated period of economic benefit, ranging from one to fifteen years.

Capitalized software development costs are amortized on a product-by-product basis. Amortization is the greater amount computed using:

- the net book value at the beginning of the period multiplied by the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product; or
- the straight-line method over the remaining estimated economic life of the product including the period being reported on.

The amortization of capitalized software development costs begins when the related product is available for general release to customers. The amortization periods normally range from one to two years.

Detailed information regarding our intangible assets, net is as follows:

|                                                           | <b>September<br/>30,<br/>2009<sup>(1)</sup></b> | <b>December<br/>31,<br/>2008<sup>(1)</sup></b> |
|-----------------------------------------------------------|-------------------------------------------------|------------------------------------------------|
| <b>(In thousands)</b>                                     |                                                 |                                                |
| Carrying amount:                                          |                                                 |                                                |
| Distribution rights (10 years)                            | \$ 420                                          | \$ 399                                         |
| Patents (10 years)                                        | 7,636                                           | 7,115                                          |
| Trademark and trade names (10 years)                      | 840                                             | 840                                            |
| Developed and core technology (5-15 years) <sup>(2)</sup> | 3,500                                           | 1,630                                          |
| Capitalized software development costs (1-2 years)        | 1,420                                           | 1,030                                          |
| Customer relationships (15 years) <sup>(3)</sup>          | 3,100                                           |                                                |
| <br>Total carrying amount                                 | <br>\$ 16,916                                   | <br>\$ 11,014                                  |
| <br>Accumulated amortization:                             |                                                 |                                                |
| Distribution rights                                       | \$ 56                                           | \$ 53                                          |
| Patents                                                   | 3,760                                           | 3,292                                          |
| Trademark and trade names                                 | 420                                             | 357                                            |
| Developed and core technology                             | 146                                             | 1,386                                          |
| Capitalized software development costs                    | 584                                             | 289                                            |
| Customer relationships                                    | 129                                             |                                                |
| <br>Total accumulated amortization                        | <br>\$ 5,095                                    | <br>\$ 5,377                                   |
| <br>Net carrying amount:                                  |                                                 |                                                |
| Distribution rights                                       | \$ 364                                          | \$ 346                                         |
| Patents                                                   | 3,876                                           | 3,823                                          |
| Trademark and trade names                                 | 420                                             | 483                                            |
| Developed and core technology                             | 3,354                                           | 244                                            |
| Capitalized software development costs                    | 836                                             | 741                                            |
| Customer relationships                                    | 2,971                                           |                                                |
| <br>Total net carrying amount                             | <br>\$ 11,821                                   | <br>\$ 5,637                                   |

- (1) This table excludes fully amortized intangible assets of \$7.6 million and \$5.9 million as of September 30, 2009 and December 31, 2008, respectively.
- (2) During the first quarter of 2009, we purchased core technology from Zilog, Inc. valued at \$3.5 million, which is being amortized ratably over fifteen years. Refer to Note 16 for further discussion regarding the purchase.
- (3) During the first quarter of 2009, we purchased customer relationships from Zilog, Inc. valued at \$3.1 million, which is being amortized ratably over fifteen years. Refer to Note 16 for further discussion regarding the purchase.

Amortization expense is recorded in selling, general and administrative expenses, except for capitalized software development amortization which is recorded in cost of sales. Amortization expense for the three months ended September 30, 2009 and 2008 was approximately \$0.5 million and \$0.4 million, respectively. Amortization expense



**Table of Contents**

for the nine months ended September 30, 2009 and 2008 was approximately \$1.4 million and \$1.1 million, respectively.

Estimated future amortization expense related to our intangible assets, net at September 30, 2009 is as follows:

**(In thousands)**

|                           |           |
|---------------------------|-----------|
| 2009 (remaining 3 months) | \$ 436    |
| 2010                      | 1,737     |
| 2011                      | 1,482     |
| 2012                      | 1,253     |
| 2013                      | 1,253     |
| Thereafter                | 5,660     |
| Total                     | \$ 11,821 |

In accordance with U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Inputs to measure fair value are classified into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or

Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or

Inputs other than quoted prices that are observable for the asset or liability

Level 3 Unobservable inputs for the asset or liability

*Intangibles Measured at Fair Value on a Nonrecurring Basis*

The fair value adjustments for intangible assets measured at fair value on a nonrecurring basis during the nine months ended September 30, 2009 were the following:

| (In thousands)         | Quarter Ended    | Fair Value Measurement Using                                   |                                               |                                           | Total Gains (Losses) |
|------------------------|------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|----------------------|
|                        |                  | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |                      |
| <b>Description</b>     | <b>9/30/2009</b> | <b>Assets (Level 1)</b>                                        | <b>(Level 2)</b>                              | <b>(Level 3)</b>                          |                      |
| Patents and trademarks | \$ 4,296         |                                                                |                                               | \$ 4,296                                  | \$ (9)               |

In accordance with U.S. GAAP, nine patents and ten trademarks with an aggregate carrying amount of \$9 thousand were disposed of, resulting in impairment charges of \$9 thousand during the nine months ended September 30, 2009, which was included in selling, general and administrative expenses. These assets no longer held any probable future economic benefits and were written-off. For further information about the valuation methodology utilized, see Note 2 under the caption *Long-Lived Assets and Intangible Assets* in our Annual Report on Form 10-K.

**Note 13: Business Segment and Foreign Operations***Business Segment*

In U.S. GAAP an operating segment is defined, in part, as a component of an enterprise whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments may be aggregated only to the limited extent permitted by the principles. We currently operate in one business segment Core Business.

**Table of Contents***Foreign Operations*

Our sales to external customers by geographic area were the following:

| (In thousands)      | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|---------------------|-------------------------------------|-----------|------------------------------------|------------|
|                     | 2009                                | 2008      | 2009                               | 2008       |
| Net sales:          |                                     |           |                                    |            |
| United States       | \$ 49,129                           | \$ 43,543 | \$ 145,491                         | \$ 113,355 |
| International:      |                                     |           |                                    |            |
| Asia                | 18,244                              | 13,411    | 42,535                             | 38,105     |
| Australia           | 409                                 | 1,126     | 1,049                              | 3,730      |
| France              | 1,127                               | 1,381     | 2,515                              | 4,112      |
| Germany             | 1,235                               | 1,817     | 4,168                              | 5,390      |
| Italy               | 564                                 | 667       | 1,921                              | 1,898      |
| Portugal            | 1,077                               | 271       | 2,854                              | 813        |
| South Africa        | 1,246                               | 1,709     | 4,477                              | 3,881      |
| Spain               | 918                                 | 1,658     | 2,964                              | 6,504      |
| United Kingdom      | 4,505                               | 5,388     | 11,704                             | 16,130     |
| All other           | 4,728                               | 5,561     | 12,933                             | 14,489     |
| Total international | 34,053                              | 32,989    | 87,120                             | 95,052     |
| Total net sales     | \$ 83,182                           | \$ 76,532 | \$ 232,611                         | \$ 208,407 |

Specific identification of the customer's location was the basis used for attributing revenues from external customers to individual countries.

Long-lived asset information by our domestic and international components is as follows:

| (In thousands)              | September<br>30,<br>2009 | December<br>31,<br>2008 |
|-----------------------------|--------------------------|-------------------------|
| Long-lived tangible assets: |                          |                         |
| United States               | \$ 6,363                 | \$ 6,525                |
| International               | 3,944                    | 2,770                   |
| Total                       | \$ 10,307                | \$ 9,295                |

**Note 14: Derivatives***Derivatives Measured at Fair Value on a Recurring Basis*

We are exposed to market risks from foreign currency exchange rates, which may adversely affect our operating results and financial position. Our foreign currency exposures are primarily concentrated in the Euro, British Pound, and Hong Kong dollar. We periodically enter into foreign currency exchange contracts with terms normally lasting less than nine months to protect against the adverse effects that exchange-rate fluctuations may have on our foreign currency-denominated receivables, payables, cash flows and reported income. Derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. We do not use leveraged derivative financial instruments and these derivatives have not qualified for hedge accounting.

The gains and losses on both the derivatives and the foreign currency-denominated balances are recorded as foreign exchange transaction gains or losses and are classified in other income (expense), net. Derivatives are recorded on the balance sheet at fair value. The estimated fair values of our derivative financial instruments represent the amount

required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

**Table of Contents**

We have determined that the fair value of our derivatives are derived from Level 2 inputs in the fair value hierarchy. The following table sets forth our derivatives that were accounted for at fair value on a recurring basis as of September 30, 2009:

| (In thousands)                                | Quarter Ended    | Fair Value Measurement Using                                   |                                               |                                           |
|-----------------------------------------------|------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                               |                  | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Description</b>                            | <b>9/30/2009</b> | <b>1)</b>                                                      | <b>(Level 2)</b>                              | <b>(Level 3)</b>                          |
| Foreign currency exchange futures contract    | \$ 6             | \$                                                             | \$ 6                                          | \$                                        |
| Foreign currency exchange put option contract | 81               |                                                                | 81                                            |                                           |
|                                               | \$ 87            | \$                                                             | \$ 87                                         | \$                                        |

We held foreign currency exchange contracts which resulted in a net pre-tax loss of approximately \$0.04 million and \$1.3 million for the three months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, we had a net pre-tax loss of approximately \$0.5 million and \$0.8 million, respectively.

*Futures Contracts*

We held one US dollar/Euro futures contract with a notional value of \$1.0 million and a forward rate of \$1.455 USD/Euro at September 30, 2009. We held the Euro position on this contract, which settled on October 7, 2009. The gain on this contract as of September 30, 2009 was \$6 thousand and is included in prepaid expenses and other current assets.

We held one US dollar/Euro futures contract with a notional value of \$9.0 million and a forward rate of \$1.277 USD/Euro at December 31, 2008. We held the Euro position on this contract, which settled on January 7, 2009. The gain on this contract as of December 31, 2008 was \$0.8 million and was included in prepaid expenses and other current assets. This contract was settled at \$0.4 million, resulting in a loss of \$0.4 million in January 2009.

*Put Options*

We entered into a USD/GBP put option with a notional value of \$4.3 million in July 2009. The strike price of the put is \$1.64 USD/GBP. The contract expires on December 31, 2009. The fair value of this put option was \$81 thousand at September 30, 2009 which is included in prepaid expenses and other current assets. The loss on this contract during the quarter ended September 30, 2009 was \$60 thousand and is included in other income (expense), net.

In August 2008, we entered into a USD/GBP put option with a notional value of \$5.0 million. That contract expired on December 31, 2008 and settled on January 5, 2009. The fair value of this put option was approximately \$0.6 million at December 31, 2008, which was included in prepaid expenses and other current assets. This contract was settled at \$0.4 million, resulting in a loss of \$0.2 million in January 2009.

**Note 15: Commitments and Contingencies***Indemnities*

We indemnify our directors and officers to the maximum extent permitted under the laws of the State of Delaware and we have entered into Indemnification Agreements with each of our directors and executive officers. In addition, we insure our individual directors and officers against certain claims and attorney's fees and related expenses incurred in connection with the defense of such claims. The amounts and types of coverage may vary from period to period as dictated by market conditions. Management is not aware of any matters that require indemnification of its officers or directors.

*Product Warranties*

We warrant our products against defects in materials and workmanship arising during normal use. We service warranty claims directly through our customer service department or contracted third-party warranty repair facilities. Our warranty period ranges up to three years. We provide for estimated product warranty expenses, which are

20

---

**Table of Contents**

included in cost of sales, as we sell the related products. Warranty expense is a forecast based on primarily historical claims experience. Actual claim costs may differ from the amounts provided.

Changes in the liability for product warranty claim cost is presented below:

| (In thousands)<br>Description        | Balance at                | Accruals<br>for                              | Settlements                                        | Balance                |
|--------------------------------------|---------------------------|----------------------------------------------|----------------------------------------------------|------------------------|
|                                      | Beginning<br>of<br>Period | Warranties<br>Issued<br>During<br>the Period | (in Cash or<br>in<br>Kind)<br>During<br>the Period | at<br>End of<br>Period |
| Nine Months Ended September 30, 2009 | \$ 90                     |                                              | \$ (5)                                             | \$ 85                  |
| Nine Months Ended September 30, 2008 | \$ 178                    |                                              | \$ (89)                                            | \$ 89                  |

***Purchase Obligations***

During the first quarter of 2009, we entered into an agreement with a vendor to purchase a minimum percentage of our total requirements for a component part over a five year period. The contract allows a ramp-up period of one year. Based on our current volume, we estimate our total financial commitment to be approximately \$40 million over the five year period. As of September 30, 2009, we purchased \$1.0 million in component parts from this vendor.

***Litigation***

In 2002, one of our subsidiaries (One For All S.A.S.) brought an action against a former distributor of the subsidiary's products seeking a recovery of accounts receivable. The distributor filed a counterclaim against our subsidiary seeking payment for amounts allegedly owed for administrative and other services rendered by the distributor for our subsidiary. In January 2005, the parties agreed to include in that action all claims between the distributor and two of our other subsidiaries, Universal Electronics BV and One For All Iberia SL. As a result, the single action covers all claims and counterclaims between the various parties. The parties further agreed that, before any judgment is paid, all disputes between the various parties would be concluded. These additional claims involve nonpayment for products and damages resulting from the alleged wrongful termination of agency agreements. On March 15, 2005, the court in one of the litigation matters brought by the distributor against one of our subsidiaries, rendered judgment against our subsidiary and awarded damages and costs to the distributor in the amount of approximately \$102,000. The amount of this judgment was charged to operations during the second quarter of 2005 and has been paid. With respect to the remaining matters before the court, we are awaiting the expert to finalize and file his pre-trial report with the court and when completed, we will respond. Management is unable to estimate the likelihood of an unfavorable outcome, and the amount of loss, if any, in the case of an unfavorable outcome.

On February 19, 2009, we filed suit against Warren Communications News, Inc. claiming that through the unauthorized use of embedded email tracking and intercepting software and code, Warren has violated the Computer Fraud and Abuse Act, the Stored Communications Act, and various applicable California laws. In addition we are asking for a declaration that we are not infringing Warren's copyright to a daily electronic publication. On March 19, 2009, Warren answered our complaint with a general denial of all of our allegations. On the same date as filing their answer, Warren counterclaimed alleging copyright infringement seeking unspecified damages. On or about April 13, 2009, we answered Warren's counterclaim denying their claim of copyright infringement and asserted numerous affirmative defenses. In addition, while discovery is continuing in this matter, it is still in the preliminary stages, thus, at this time we are unable to estimate the likely outcome of this matter and the amount, if any, of recovery to be awarded to any party at this time.

There are no other material pending legal proceedings, other than litigation that is incidental to the ordinary course of our business, to which we or any of our subsidiaries is a party or of which our respective property is the subject. We do not believe that any of the claims made against us in any of the pending matters have merit and we intend to vigorously defend ourselves against them.

We maintain directors' and officers' liability insurance to insure our individual directors and officers against certain claims and attorneys' fees and related expenses incurred in connection with the defense of such claims.



**Table of Contents***Long-Term Incentive Plan*

During the second quarter of 2007, we adopted an Executive Long-Term Incentive Plan ( ELTIP ). The ELTIP provided a bonus pool for our executive management team contingent on achieving certain performance goals during a two-year performance period commencing on January 1, 2007 and ending on December 31, 2008. The performance goals were based on the compound annual growth rate of net sales and earnings per diluted share during the performance period. The ELTIP had a maximum pay out of \$12 million if the highest performance goals were met. Based on our performance during 2007, management accrued \$1.0 million for bonuses under the ELTIP, however, based on the 2008 results, it was determined that no bonus was earned under the terms of the ELTIP. As a result, we lowered our ELTIP accrual from \$1.0 million at December 31, 2007 to \$0 at December 31, 2008. This adjustment resulted in a \$1.0 million benefit to pre-tax income for the twelve months ended December 31, 2008.

Notwithstanding the ELTIP results, our Compensation Committee decided to award a discretionary bonus of \$1.0 million, to be paid out quarterly over the next two years (2009 and 2010). The Compensation Committee came to this decision after reviewing the economic environment and our relative financial and operating performance. The Compensation Committee believes this bonus is in alignment with our stockholders' interests as well as our performance and retention objectives. As a result, on December 31, 2008 we accrued \$0.5 million for this discretionary bonus which was included in accrued compensation. The amount of a participant's earned award will be paid in cash. Each participant's earned award is vesting in eight equal quarterly installments which began March 31, 2009 and will end December 31, 2010. In the event a participant terminates their employment during the service period (January 1, 2009 through December 31, 2010), they will forfeit their right to any remaining installments where the payment date has not yet occurred. The amount expensed related to this discretionary bonus during the three and nine months ended September 30, 2009 was \$0.1 million and \$0.2 million, respectively.

*Non-Qualified Deferred Compensation Plan*

We have adopted a non-qualified deferred compensation plan for the benefit of a select group of highly compensated employees. For each plan year a participant may elect to defer compensation in fixed dollar amounts or percentages subject to the minimums and maximums established under the plan. Generally, an election to defer compensation is irrevocable for the entire plan year. A participant is always fully vested in their elective deferrals and may direct these funds into various investment options available under the plan. These investment options are utilized for measurement purposes only, and may not represent the actual investment made by us. In this respect, the participant is an unsecured creditor of ours. At September 30, 2009, the amounts deferred under the plan were immaterial to our financial statements.

*Defined Benefit Plan*

Our India subsidiary maintains a defined benefit pension plan ( India Plan ) for local employees, which is consistent with local statutes and practices. As of September 30, 2009, based on its latest actuarial report, the pension plan was adequately funded. The India Plan has an independent external manager that advises us of the appropriate funding contribution requirements to which we comply. At September 30, 2009, approximately 20 percent of our India subsidiary employees had qualified for eligibility. Generally, an employee must be employed by the company for a minimum of five years before becoming eligible. At the time of eligibility we are liable, on termination, resignation or retirement, to pay the employee an amount equal to fifteen days salary for each full year of service completed. The total amount of liability outstanding at September 30, 2009 for the India Plan is not material. During the nine months ended September 30, 2009, the net periodic benefit costs were also not material.

**Note 16: Business Acquisition**

On February 18, 2009, we acquired certain patents, intellectual property and other assets related to the universal remote control business from Zilog, Inc. (NASDAQ: ZILG) for approximately \$9.5 million in cash. The purchase included Zilog's full library and database of infrared codes, software tools and certain fixed assets. We also hired 115 of Zilog's sales and engineering personnel, including all 103 of Zilog's personnel located in India. In a related transaction, Maxim Integrated Products (NASDAQ: MXIM) acquired two of Zilog's product lines, namely, the hardware portion of Zilog's remote control business and Zilog's secured transaction product line.

We have cross licensed the remote control technology and intellectual property with Maxim Integrated Products for purpose of conducting our respective businesses. The arrangement involves an agreement to source silicon chips



**Table of Contents**

from Maxim. For the first year we will be the exclusive sales agent of universal remote control chips for Maxim, selling the Zilog designs to Zilog's former customers. We expect this arrangement to be mildly accretive to our earnings in 2009, excluding acquisition costs. Beginning in the second year, we will take over full sales and distribution rights to Zilog's former customers, and we anticipate this position will lead to growth in revenue and earnings going forward. Our consolidated financial statements include the operating results of the acquired assets, employees hired, and the related agreement with Maxim from February 18, 2009. We recognized net revenue of \$1.3 million and \$3.1 million and earnings of \$0.1 million and \$0.5 million related to the acquisition during the three and nine months ended September 30, 2009, excluding acquisition costs of \$1.1 million.

The total purchase price of approximately \$9.5 million has been allocated to the net assets acquired based on their estimated fair values as follow:

**(In thousands)**

Intangible assets:

|                                   |          |
|-----------------------------------|----------|
| Database                          | \$ 3,500 |
| Customer relationships            | 3,100    |
| Goodwill                          | 2,902    |
| Equipment, furniture and fixtures | 44       |
| Purchase price                    | \$ 9,546 |

*Intangible Assets Subject to Amortization*

Of the total purchase price, approximately \$6.6 million was allocated to intangible assets subject to amortization including the database and customer relationships.

The database intangible is composed of the estimated fair value of patents, intellectual property and other assets related to Zilog's database of infrared codes, and software tools. When determining the fair value of the database, we utilized the cost approach. In our valuation, we estimated the total costs to recreate the database, including the associated opportunity costs (or revenue lost while recreating). We discounted the after-tax cash flows to present value to arrive at our estimate of the fair value of the database. We are amortizing the database on a straight-line basis over an estimated useful life of approximately fifteen years.

The customer relationship intangible is composed of the fair value of customer relationships acquired as a result of the Zilog purchase. We utilized the income approach to estimate the fair value of the customer relationships intangible. We developed after-tax cash flows based on forecasted revenue from these customers assuming a customer attrition rate based on our analysis of customer data for UEI and Zilog. We discounted the after-tax cash flows to present value to arrive at our estimate of the fair value of the customer relationships intangible. We are amortizing the customer relationships intangible on a straight-line basis over an estimated useful life of approximately fifteen years.

*Goodwill*

Goodwill represents the excess of the cost (purchase price) over the estimated fair value of identifiable tangible and intangible assets acquired. Goodwill from this transaction of \$2.9 million will not be amortized, but will be analyzed for impairment at least on an annual basis in accordance with U.S. GAAP. We review our goodwill for impairment annually as of December 31st and whenever events or changes in circumstances indicate that an impairment loss may have occurred. Of the total goodwill recorded, none is expected to be deductible for tax purposes.

The goodwill recognized is attributable to the following value we received from this acquisition:

This acquisition will expand the breadth and depth of our customer base in both subscription broadcasting and original equipment manufacturing, particularly in Asia.

We believe integrating Zilog's technologies with and into our own technology will reduce design cycle times, lower costs, and lead to improvements in our integrated circuit design, product quality and overall functional performance.



**Table of Contents**

The acquisition of former Zilog employees will allow us to leverage their experience to our advantage in the wireless control industry.

*Acquisition Costs*

We recognized \$0 and \$1.1 million of total acquisition costs related to the Zilog transaction in selling, general and administrative expenses during the three and nine months ended September 30, 2009, respectively. The acquisition costs consisted of primarily legal and investment banking services. Of the \$1.1 million of transaction costs recognized during the nine months ended September 30, 2009, \$0.1 million was capitalized at December 31, 2008.

*Pro forma Results (Unaudited)*

The following unaudited pro forma financial information presents the combined results of our operations and the operations of the acquisition from Zilog as if the acquisition had occurred at the beginning of the periods presented. Adjustments netting \$0 and \$0.04 million for the three and nine months ended September 30, 2009, respectively, have been made to the combined results of operations, primarily reflecting net sales, salary costs and the amortization of purchased intangible assets. Net adjustments of \$0.1 million have been added and \$0.5 million have been subtracted to the combined results of operations for the three and nine months ended September 30, 2008, respectively, reflecting primarily net sales, salary costs, amortization of purchased intangible assets and the acquisition costs. All adjustments are net of their related tax effects.

Pro forma results were as follows for the three and nine months ended September 30, 2009 and 2008:

| (In thousands)                          | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|-----------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                         | 2009                                | 2008     | 2009                               | 2008      |
| Net sales                               | \$83,182                            | \$77,782 | \$233,098                          | \$212,032 |
| Net income                              | \$ 4,223                            | \$ 4,073 | \$ 8,796                           | \$ 9,488  |
| Basic and diluted net income per share: |                                     |          |                                    |           |
| Basic                                   | \$ 0.31                             | \$ 0.29  | \$ 0.64                            | \$ 0.67   |
| Diluted                                 | \$ 0.30                             | \$ 0.28  | \$ 0.63                            | \$ 0.65   |

The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations that would have been achieved had the acquisition actually been completed as of the dates presented, and should not be taken as a projection of the future consolidated results of our operations.

## Table of Contents

### **ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes that appear elsewhere in this document.*

#### **Overview**

We have developed a broad line of pre-programmed universal wireless control products and audio-video accessories that are marketed to enhance home entertainment systems. Our customers operate in the consumer electronics market and include OEMs, MSOs (cable and satellite service providers), international retailers, CEDIA (Custom Electronic Design and Installation Association), U.S. retailers, private labels, and companies in the computing industry. We also sell integrated circuits, on which our software and IR code database is embedded, to OEMs that manufacture wireless control devices, cable converters or satellite receivers for resale in their products. We believe that our universal remote control database contains device codes that are capable of controlling virtually all infrared remote (IR) controlled TVs, DVD players, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled devices worldwide.

Beginning in 1986 and continuing today, we have compiled an extensive library that covers over 415,000 individual device functions and over 3,700 individual consumer electronic equipment brand names. Our library is regularly updated with IR codes used in newly introduced video and audio devices. All IR codes are captured from the original manufacturer's remote control devices or manufacturer's specifications to ensure the accuracy and integrity of the database. We have also developed patented technologies that provide the capability to easily upgrade the memory of the wireless control device by adding IR codes from the library that were not originally included.

We have twelve subsidiaries located in Argentina, Cayman Islands, France, Germany (2), Hong Kong, India, Italy, the Netherlands, Singapore, Spain and the United Kingdom.

To recap our results for the nine months ended September 30, 2009:

Our revenue grew 11.6% from \$208.4 million for the nine months ended September 30, 2008 to \$232.6 million for the nine months ended September 30, 2009.

Our sales growth in the first nine months of 2009 was the result of strong demand from customers in our business category, due in part to the continuation of the upgrade cycle from analog to digital, consumer demand for advanced-function offerings from subscription broadcasters, increased share with existing customers, and new customer wins.

Our operating income for the first nine months of 2009 increased 7.1% to \$13.9 million from operating income of \$13.0 million in the first nine months of 2008. Our operating margin percentage decreased from 6.2% in the first nine months of 2008 to 5.9% in the first nine months of 2009 due primarily to the decrease in our gross margin percentage offset partially by the decrease in operating expense as a percentage of revenue. Our gross margin percentage decreased from 34.0% in the first nine months of 2008 to 31.4% in the first nine months of 2009. The decrease in our gross margin rate was due primarily to the weakening of the Euro and British pound compared to the U.S. dollar. Sales mix also contributed to the decline in our gross margin percentage, as a higher percentage of our total sales was comprised of our lower-margin Business category. In addition, sales mix also contributed to the decrease in our gross margin rate as consumers trended towards value-oriented products. Operating expenses decreased from 27.8% of revenue for the nine months ended September 30, 2008 to 25.5% for the nine months ended September 30, 2009, despite incurring \$1.1 million of deal related costs in the first nine months of 2009 relating to the acquisition of assets from Zilog, Inc.

Our strategic business objectives for 2009 include the following:

increase our share with existing customers;

acquire new customers in historically strong regions;

**Table of Contents**

continue our expansion into new regions, Asia in particular;

continue to develop industry-leading technologies and products;

continue to evaluate potential acquisition and joint venture opportunities that may enhance our business.

We intend the following discussion of our financial condition and results of operations to provide information that will assist in understanding our consolidated financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our consolidated financial statements.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for sales returns and doubtful accounts, warranties, inventory valuation, business combination purchase price allocations, our review for impairment of long-lived assets, intangible assets and goodwill, income taxes and stock-based compensation expense. Actual results may differ from these judgments and estimates, and they may be adjusted as more information becomes available. Any adjustment may be significant.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably may have been used, or if changes in the estimate that are reasonably likely to occur may materially impact the financial statements. We do not believe that there have been any significant changes during the three and nine months ended September 30, 2009 to the items that we disclosed as our critical accounting policies and estimates in Item 7,

Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for our fiscal year ended December 31, 2008.

***Recent Accounting Pronouncements***

See Note 1 of Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements.

**Results of Operations**

Our results of operations as a percentage of net sales for the three and nine months ended September 30, 2009 and 2008 were as follows:

|                                              | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|----------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                              | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Net sales                                    | 100%                                        | 100%        | 100%                                       | 100%        |
| Cost of sales                                | 68.7                                        | 67.4        | 68.6                                       | 66.0        |
| Gross profit                                 | 31.3                                        | 32.6        | 31.4                                       | 34.0        |
| Research and development expenses            | 2.7                                         | 2.6         | 2.8                                        | 3.0         |
| Selling, general and administrative expenses | 20.6                                        | 22.3        | 22.7                                       | 24.8        |
| Operating expenses                           | 23.3                                        | 24.9        | 25.5                                       | 27.8        |
| Operating income                             | 8.0                                         | 7.7         | 5.9                                        | 6.2         |
| Interest income, net                         | 0.1                                         | 1.1         | 0.2                                        | 1.3         |
| Other income (expense), net                  | 0.0                                         | (0.5)       | (0.1)                                      | (0.1)       |
| Income before income taxes                   | 8.1                                         | 8.3         | 6.0                                        | 7.4         |

Edgar Filing: UNIVERSAL ELECTRONICS INC - Form 10-Q

|                            |       |       |       |       |
|----------------------------|-------|-------|-------|-------|
| Provision for income taxes | (3.1) | (3.1) | (2.3) | (2.6) |
| Net income                 | 5.0%  | 5.2%  | 3.7%  | 4.8%  |
|                            | 26    |       |       |       |

---

**Table of Contents**

*Three Months Ended September 30, 2009 versus Three Months Ended September 30, 2008:*

Net sales by our Business and Consumer lines for the three months ended September 30, 2009 and 2008 were as follows:

|                 | <b>2009</b>       |                   | <b>2008</b>       |                   |
|-----------------|-------------------|-------------------|-------------------|-------------------|
|                 | <b>\$</b>         | <b>% of total</b> | <b>\$</b>         | <b>% of total</b> |
|                 | <b>(millions)</b> |                   | <b>(millions)</b> |                   |
| Net sales:      |                   |                   |                   |                   |
| Business        | \$ 67.0           | 80.5%             | \$ 61.3           | 80.1%             |
| Consumer        | 16.2              | 19.5%             | 15.2              | 19.9%             |
| Total net sales | \$ 83.2           | 100.0%            | \$ 76.5           | 100.0%            |

*Overview*

Net sales for the third quarter of 2009 were \$83.2 million, an increase of 9% compared to \$76.5 million for the third quarter of 2008. Net income for the third quarter of 2009 was \$4.2 million or \$0.30 per diluted share compared to \$4.0 million or \$0.28 per diluted share for the third quarter of 2008.

*Consolidated*

Net sales in our Business lines (subscription broadcasting, OEM and computing companies) were approximately 81% of net sales in the third quarter of 2009 compared to approximately 80% in the third quarter of 2008. Net sales in our Business lines for the third quarter of 2009 increased by 9% to \$67.0 million from \$61.3 million in the third quarter of 2008. This increase resulted primarily from an increase in the volume of remote control sales which is attributable to the continued deployment of advanced function set-top boxes by the service operators and new customer wins. These advanced functions include digital video recording ( DVR ), video-on-demand ( VOD ), and high definition television ( HDTV ). We expect that the deployment of the advanced function set-top boxes by the service operators will continue into the foreseeable future as penetration for each of the functions cited continues to increase. In addition to the increased volume of remote control sales, \$1.3 million of the increase in our Business category net sales during the third quarter of 2009 were the result of our sales agent agreement with Maxim Integrated Products.

Net sales in our Consumer lines (One For All® retail, private label and custom installers) were approximately 19% of net sales for the third quarter of 2009 compared to approximately 20% for the third quarter of 2008. Net sales in our Consumer lines increased by 7% to \$16.2 million in the third quarter of 2009 from \$15.2 million in the third quarter of 2008. North American retail sales increased by \$3.7 million compared to the third quarter of 2008, as a result of a new partnership agreement with a distributor in the U.S market. International retail sales decreased by \$1.3 million from \$11.2 million in the third quarter of 2008 to \$9.9 million in the third quarter of 2009. International retail sales were unfavorably impacted by the weakening of both the Euro and the British Pound compared to the U.S. dollar, which resulted in a decrease in net sales of approximately \$1.0 million. Net of this currency effect, international retail sales decreased \$0.3 million, primarily due to the downturn of the economy in Europe. CEDIA sales decreased by \$1.2 million compared to the third quarter of 2008, primarily due to the launch of new products that occurred in the second quarter of 2008 which bolstered sales in the subsequent quarter. Private label sales in the U.S. decreased \$0.2 million, driven by a decline in the volume of remote control sales to our private label partners.

Gross profit for the third quarter of 2009 was \$26.1 million compared to \$24.9 million for the third quarter of 2008. Gross profit as a percentage of sales for the third quarter of 2009 was 31.3% compared to 32.6% for the same period in the prior year, due primarily to the following reasons:

Foreign currency fluctuations caused a decrease of 0.8% in the gross margin rate;

sales mix within our Business and Consumer categories contributed to the decrease in our gross margin rate. Consumers trended towards value-oriented products which resulted in a decrease of 0.4% in the gross margin rate;



**Table of Contents**

an increase in sub-contract labor expense of \$0.3 million caused a decrease of 0.3% in the gross margin rate; and

a decrease in freight expense as a result of more drop-ship sales caused an increase of 0.3% in the gross margin rate.

Research and development expenses increased 13.4% from \$2.0 million in the third quarter of 2008 to \$2.3 million in the third quarter of 2009 due to additional investment in product development.

Selling, general and administrative expenses remained relatively flat from \$17.0 million in the third quarter of 2008 to \$17.2 million in the third quarter of 2009. The weakening of the Euro compared to the U.S. dollar resulted in a decrease of \$0.4 million. Net of this favorable currency effect, expenses increased by \$0.6 million due primarily to the acquisition of certain assets and operations from Zilog, Inc. during the first quarter of 2009 which resulted in an increase in operating expense of approximately \$1.1 million, offset partially by a decrease in tradeshow expense of \$0.5 million.

In the third quarter of 2009, we recorded \$0.1 million of net interest income compared to \$0.9 million in the third quarter of 2008. The decrease is primarily due to significantly lower interest rates.

In the third quarter of 2009, net other income was \$25 thousand as compared to net other expense of \$0.4 million for the third quarter of 2008 which was driven by foreign exchange hedging transactions.

We recorded income tax expense of \$2.6 million in the third quarter of 2009 compared to \$2.3 million in the third quarter of 2008. Our effective tax rate was 37.7% in the third quarter of 2009 compared to 37.0% in the third quarter of 2008.

*Nine Months Ended September 30, 2009 versus Nine Months Ended September 30, 2008:*

The following table sets forth our net sales by our Business and Consumer lines for the nine months ended September 30, 2009 and 2008:

|                 | 2009             |            | 2008             |            |
|-----------------|------------------|------------|------------------|------------|
|                 | \$<br>(millions) | % of total | \$<br>(millions) | % of total |
| Net sales:      |                  |            |                  |            |
| Business        | \$ 196.0         | 84.3%      | \$ 166.4         | 79.8%      |
| Consumer        | 36.6             | 15.7%      | 42.0             | 20.2%      |
| Total net sales | \$ 232.6         | 100.0%     | \$ 208.4         | 100.0%     |

***Overview***

Net sales for the nine months ended September 30, 2009 were \$232.6 million, an increase of 12% compared to \$208.4 million for the nine months ended September 30, 2008. Net income for the nine months ended September 30, 2009 was \$8.8 million or \$0.63 per diluted share compared to \$10.0 million and \$0.68 per diluted share for the nine months ended September 30, 2008.

***Consolidated***

Net sales in our Business lines (subscription broadcasting, OEM and computing companies) were approximately 84% of net sales for the nine months ended September 30, 2009 compared to approximately 80% for the nine months ended September 30, 2008. Net sales in our Business lines for the nine months ended September 30, 2009 increased by 17.8% to \$196.0 million from \$166.4 million for the same period last year. This increase resulted primarily from an increase in the volume of remote control sales which is attributable to the continued deployment of advanced function set-top boxes by the service operators, market share gains with a few key subscription broadcast customers and new customer wins. These advanced functions include digital video recording ( DVR ), video-on-demand ( VOD ), and high definition television ( HDTV ). We expect that the deployment of the advanced function set-top boxes by the service operators will continue into the foreseeable future as penetration for each of the functions cited continues to increase. In addition to the increased volume of remote control sales, we



## **Table of Contents**

recorded \$3.1 million of revenue relating to our sales agent agreement with Maxim Integrated Products which commenced in February 2009.

Net sales in our Consumer lines (One For All® retail, private label and custom installers) were approximately 16% of net sales for the nine months ended September 30, 2009 compared to approximately 20% for the nine months ended September 30, 2008. Net sales in our Consumer lines for the nine months ended September 30, 2009 decreased by 13% to \$36.6 million from \$42.0 million for the same period last year. International retail sales decreased 23% to \$25.8 million for the nine months ended September 30, 2009 from \$33.3 million for the nine months ended September 30, 2008. This decrease was due in part to the weakening of the Euro and British pound compared to the U.S. dollar. The impact of the weaker currency resulted in a decrease in net sales of approximately \$4.4 million. Net of this negative currency effect, international retail sales decreased \$3.1 million, primarily due to the downturn of the economy in Europe. CEDIA sales in the first nine months of 2009 decreased by \$1.8 million compared to the same period of 2008, due primarily to difficult selling conditions worldwide for higher-end consumer products. Private Label sales decreased \$1.1 million, from \$1.5 million for the nine months ended September 30, 2008 to \$0.4 million for the nine months ended September 30, 2009. These decreases were partially offset by an increase in North American retail sales, which increased by \$5.0 million compared to the same period of 2008, as a result of a new partnership agreement with a distributor in the U.S market.

Gross profit for the nine months ended September 30, 2009 was \$73.0 million compared to \$70.9 million for the nine months ended September 30, 2008. Gross profit as a percentage of net sales for the nine months ended September 30, 2009 was 31.4% compared to 34.0% for the nine months ended September 30, 2008, due primarily to the following reasons:

Foreign currency fluctuations caused a decrease of 1.2% in the gross margin rate;

a higher percentage of our total sales was comprised of our lower margin Business category. In addition, sales mix within our sales categories also contributed to the decrease in our gross margin rate as consumers trended towards value-oriented products. Collectively, the aforementioned resulted in a decrease of 1.1% in the gross margin rate;

an increase in scrap expense of \$1.2 million caused a decrease of 0.4% in the gross margin rate; and

a decrease in freight expense as a result of more drop-ship sales caused an increase of 0.3% in the gross margin rate.

Research and development expenses increased 2% from \$6.3 million in the nine months ended September 30, 2008 to \$6.4 million in the nine months ended September 30, 2009, consistent with prior year levels.

Selling, general and administrative expenses increased 2.1% from \$51.6 million in the nine months ended September 30, 2008 to \$52.7 million in the nine months ended September 30, 2009. The weakening of the Euro compared to the U.S. dollar resulted in a decrease of \$2.5 million. Net of the currency effect, selling, general and administrative expenses increased by \$3.6 million. Legal, accounting, and advisory professional service expense increased by \$1.4 million, mainly due to the acquisition of assets from Zilog, Inc, which was completed during the first quarter of 2009. In addition, the newly-acquired Zilog operations increased operating expenses by \$2.7 million during the nine months ended September 30, 2009. Bonus expense also increased by \$0.7 million compared to the prior year. Partially offsetting these increases was a decline in advertising and tradeshow expense of \$0.9 million. In the nine months ended September 30, 2009, we recorded \$0.4 million of net interest income compared to \$2.6 million during the nine months ended September 30, 2008. The decrease is primarily due to significantly lower interest rates.

For the nine months ended September 30, 2009, net other expense was \$0.2 million, comparable with net other expense of \$0.2 million for the nine months ended September 30, 2008, which was driven by foreign exchange hedging transactions.

**Table of Contents**

We recorded income tax expense of \$5.2 million and \$5.4 million for the nine months ended September 30, 2009 and 2008, respectively. Our estimated effective tax rate was 37.3% and 35.1% during the nine months ended September 30, 2009 and 2008, respectively. The increase in our effective tax rate was due to a higher percentage of our income being earned in higher tax rate jurisdictions in 2009 compared to 2008. In addition, our research and development tax credits have decreased in 2009 compared to 2008.

**Liquidity and Capital Resources***Sources and Uses of Cash:*

| <b>(In thousands)</b>                     | <b>Nine months<br/>ended<br/>September 30,<br/>2009</b> | <b>(Decrease)/<br/>Increase in<br/>cash</b> | <b>Nine months<br/>ended<br/>September 30,<br/>2008</b> |
|-------------------------------------------|---------------------------------------------------------|---------------------------------------------|---------------------------------------------------------|
| Net cash provided by operating activities | \$ 20,876                                               | \$ 2,731                                    | \$ 18,145                                               |
| Net cash used for investing activities    | (63,757)                                                | (57,896)                                    | (5,861)                                                 |
| Net cash used for financing activities    | (2,632)                                                 | 17,613                                      | (20,245)                                                |
| Effect of exchange rate changes on cash   | 374                                                     | 3,163                                       | (2,789)                                                 |

|                           | <b>September 30,<br/>2009</b> | <b>Increase/(Decrease)</b> | <b>December 31,<br/>2008</b> |
|---------------------------|-------------------------------|----------------------------|------------------------------|
| Cash and cash equivalents | \$ 30,099                     | \$ (45,139)                | \$ 75,238                    |
| Working capital           | 122,830                       | 527                        | 122,303                      |

*Net cash provided by operating activities* increased by \$2.7 million from \$18.1 million during the first nine months of 2008 to \$20.9 million during the first nine months of 2009. The increase in net cash provided by operating activities was driven partly by a cash inflow of \$4.5 million during the first 9 months of 2009 relating to accounts receivable compared to a cash outflow of \$1.6 million in the prior year. Our days-sales-outstanding improved from 71 days at September 30, 2008, to 61 days at September 30, 2009. In addition, during the first nine months of 2009 we had cash outflows related to inventory of \$1.9 million compared to cash outflows of \$8.1 million during the first nine months of 2008. During 2008, we began to build our inventories to curtail costly air shipments and to support our increasing sales. Inventory turnover increased slightly from 5.1 times for the first nine months of 2008 to 5.2 times for the first nine months of 2009. There were additional non-cash expenses that increased in 2009 compared to 2008 such as depreciation and amortization which increased by \$0.7 million and provision for inventory write-downs which increased by \$1.2 million. These increases in operating cash flows were partially offset by our deliberate effort to improve our vendor management which commenced during the first nine months of 2008 and resulted in a \$9.3 million cash inflow. During the first nine months of 2009, our days in payables decreased from 67.9 days at September 30, 2008 to 63.8 days at September 30, 2009 resulting in a cash outflow of \$3.2 million.

*Net cash used for investing activities* increased by \$57.9 million from \$5.9 million in the first nine months of 2008 to \$63.8 million in the first nine months of 2009. The increase in cash used for investing activities was primarily due to the acquisition of intangible assets and goodwill of \$9.5 million from Zilog, Inc. and our term deposit investment of \$49.1 million, offset by a decrease in cash utilized to purchase equipment, furniture and fixtures. The renovation of our corporate headquarters was completed during the first quarter of 2008, resulting in the decrease in cash used for the acquisition of equipment, furniture, and fixtures during the first nine months of 2009 compared to the first nine months of 2008. Refer to Note 16 for further discussion about our purchase of assets from Zilog, Inc.

We plan to make a significant investment to upgrade our information systems, which we expect to cost approximately \$1.0 million. We expect the implementation to be complete in 2010.

*Net cash used for financing activities* decreased by \$17.6 million from \$20.2 million in the first nine months of 2008 to \$2.6 million in the first nine months of 2009. We repurchased fewer shares of our common stock during the first nine months of 2009 compared to the first nine months of 2008. During the first nine months of 2009 we repurchased 288,452 shares of our common stock for \$5.2 million compared to our repurchase of 913,714 shares of our common stock for \$21.6 million during the first nine months of 2008. We hold repurchased shares as treasury stock and they

are available for reissue. Presently, except for using a small number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares. However, we may change these plans if necessary to fulfill our on-going business objectives.

**Table of Contents**

Our Credit Facility with Comerica expired on August 31, 2009, at which time we obtained a three month extension. Under our Credit Facility, we were authorized to acquire up to 2,000,000 shares of our common stock in the open market. Effective February 26, 2009, Comerica amended our Credit Facility by authorizing an additional 1,000,000 shares to be repurchased, capped at a maximum cost of \$13.0 million. Given our closing stock price at September 30, 2009, we were authorized to repurchase 2,636,630 shares. As of September 30, 2009, we have purchased 1,974,670 shares of our common stock, leaving 661,960 shares available for purchase under the Credit Facility. During 2009, we may continue to purchase shares of our common stock if we believe conditions are favorable and to offset the dilutive effect of our equity compensation programs.

Presently, we have no borrowings under this Credit Facility, however we cannot make any assurances that we will not need to borrow amounts under this facility or that a facility will continue to be extended to us under comparable terms or at all. We are currently negotiating a new credit agreement.

At September 30, 2009, we had a six month term deposit cash account at Wells Fargo Bank denominated in Hong Kong dollars. The term began on July 21, 2009 and will end on January 21, 2010. The term deposit earns interest at an annual rate of 0.57%. There are no penalties assessed for early withdrawal. The deposit amount and accrued interest related to this account as of September 30, 2009 was \$49.1 million and \$0.4 million, respectively.

***Contractual Obligations***

At September 30, 2009, our contractual obligations were \$44.7 million compared to \$66.0 million reported in our Annual Report on Form 10-K as of December 31, 2008. The following table summarizes our contractual obligations at September 30, 2009 and the effect these obligations are expected to have on our liquidity and cash flow in future periods.

| (In thousands)                      | Total     | Payments Due by Period |              |              |                  |
|-------------------------------------|-----------|------------------------|--------------|--------------|------------------|
|                                     |           | Less<br>than<br>1 year | 1-3<br>Years | 4-5<br>years | After<br>5 years |
| Contractual obligations:            |           |                        |              |              |                  |
| Operating lease obligations         | \$ 4,691  | \$ 1,826               | \$ 2,379     | \$ 486       | \$               |
| Purchase obligations <sup>(1)</sup> | 40,032    | 4,032                  | 16,000       | 16,000       | 4,000            |
| Total contractual obligations       | \$ 44,723 | \$ 5,858               | \$ 18,379    | \$ 16,486    | \$ 4,000         |

(1) Purchase obligations include contractual payments to purchase minimum quantities of inventory under vendor agreements.

***Liquidity***

We have utilized cash provided from operations as our primary source of liquidity, since internally generated cash flows have been sufficient to support our business operations, capital expenditures and discretionary share repurchases. We are able to supplement this near term liquidity, if necessary, with our Credit Facility, as discussed below.

Historically, our working capital needs have been greatest during the third and fourth quarters when accounts receivable and inventories increase in connection with the fourth quarter holiday selling season. At September 30, 2009, we had \$122.8 million of working capital as compared to \$122.3 million at December 31, 2008.

At September 30, 2009, we had approximately \$13.6 million, \$11.0 million, \$3.6 million and \$1.9 million of cash and cash equivalents in the United States, Europe, Asia and Cayman Islands, respectively. In addition, we had a term deposit of \$49.1 million in Asia. We maintain our cash, cash equivalents, and term deposits with various financial institutions located in many different geographic regions. We attempt to mitigate our exposure to interest rate, liquidity, credit and other relevant risks by placing our cash, cash equivalents, and term deposit with financial institutions we believe are adequately capitalized.

Our \$15 million unsecured revolving credit line ( Credit Facility ) with Comerica Bank expired on August 31, 2009. On August 31, 2009, we received a three month extension from Comerica. We are currently negotiating a new credit agreement. Under the existing Credit Facility, the interest payable is variable and is based on the bank's cost

## **Table of Contents**

of funds or 12-month LIBOR plus a fixed margin of 1.25%. The interest rate in effect as of September 30, 2009 using 12-month LIBOR plus a fixed margin of 1.25% was 2.52%. We pay a commitment fee ranging from zero to a maximum rate of 0.25% per year on the unused portion of the credit line depending on the amount of cash investment retained with Comerica during each quarter. At September 30, 2009, the commitment fee rate was 0.25%. Under the terms of the Credit Facility, dividend payments are allowed for up to 100% of the prior fiscal year's net income, to be paid within 90 days of the current fiscal year end. We are subject to certain financial covenants related to our net worth, quick ratio and net income. Amounts available for borrowing under the Credit Facility are reduced by the outstanding balance of import letters of credit. As of September 30, 2009, we did not have any outstanding import letters of credit and the available balance on the line of credit was \$15 million. Furthermore, as of September 30, 2009, we were in compliance with all financial covenants required by the Credit Facility.

It is our policy to carefully monitor the state of our business, cash requirements and capital structure. As previously mentioned, we believe that cash generated from our operations and, so long as our Credit Facility is available, funds from our borrowing facility will be sufficient to fund our current business operations and anticipated growth at least over the next twelve months; however, there can be no assurance that such funds will be adequate for that purpose. In addition, our Credit Facility is set to expire on November 30, 2009 and we cannot make any assurances that a new Credit Facility will be extended to us beyond its expiration date under comparable terms or at all.

### *Off Balance Sheet Arrangements*

Other than the contractual obligations disclosed above, we do not participate in any off balance sheet arrangements.

## **Factors That May Affect Financial Condition and Future Results**

### *Forward Looking Statements*

We caution that the following important factors, among others (including but not limited to factors discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as those discussed in our 2008 Annual Report on Form 10-K, or in our other reports filed from time to time with the Securities and Exchange Commission), may affect our actual results and may contribute to or cause our actual consolidated results to differ materially from those expressed in any of our forward-looking statements. The factors included here are not exhaustive. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

While we believe that the forward-looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the following:

- the failure of our markets or customers to continue growing and expanding in the manner we anticipated;

- the effects of natural or other events beyond our control, including the effects a war or terrorist activities may have on us, the economy or our customers;

- the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail, digital media/technology, CEDIA, interactive TV, automotive, and cellular industries not materializing or growing as we believed;

- our inability to obtain orders or maintain our order volume with new and existing customers;

- our inability to add profitable complementary products which are accepted by the marketplace;

- our inability to continue selling our products or licensing our technologies at higher or profitable margins;



**Table of Contents**

our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts;

the possible dilutive effect our stock incentive programs may have on our earnings per share and stock price;

our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis;

our inability to successfully integrate any strategic business transaction; and

other factors listed from time to time in our press releases and filings with the Securities and Exchange Commission.

*Outlook*

Our focus is to build technology and products that make the consumer's interaction with devices and content within the home easier and more enjoyable. The pace of change in the home is increasing. The growth of new devices, such as DVD players, PVR/DVR technologies, HDTV and home theater solutions, to name only a few, has transformed control of the home entertainment center into a complex challenge for the consumer. The more recent introduction and projected growth of digital media technologies in the consumer's life will further increase this complexity. We have set out to create the interface for the connected home, building a bridge between the home devices of today and the networked home of the future. We intend to invest in new products and technology, particularly in the connected home space, which will expand our business beyond the control of devices to the control of and access to content, such as digital media, to enrich the entertainment experience.

We will continue enhancing our leadership position in our core business by developing custom products for our subscription broadcasting, OEM, retail and computing customers, growing our capture expertise in infrared technology and radio frequency standards, adding to our portfolio of patented or patent pending technologies and developing new platform products. We are also developing new ways to enhance remote controls and other accessory products.

We are continuing to seek ways to use our technology to make the set-up and use of control products, and the access to and control of digital entertainment within the home entertainment network, easier and more affordable. In addition, we are working on product line extensions to our One For All® branded products which include digital antennas, signal boosters, and other A/V accessories.

We are also seeking ways to increase our customer base worldwide, particularly in the areas of subscription broadcasting, OEM and One For All® retail. We will continue to work on strengthening existing relationships by working with customers to understand how to make the consumer interaction with products and services within the home easier and more enjoyable. We intend to invest in new products and technology to meet our customer needs now and into the future.

We will continue developing software and firmware solutions that can enable devices such as TVs, set-top boxes, stereos and other consumer electronic products to wirelessly connect and interact with home networks and interactive services to deliver digital entertainment and information. This smart device category is emerging, and in the remainder of 2009 we look to continue to build relationships with our customers in this category.

Throughout 2009, we will continue to evaluate acceptable acquisition targets and strategic partnership opportunities in our core business lines as well as in the networked home marketplace. We caution, however, that no assurance can be made that any suitable acquisition target or partnership opportunity will be identified and, if identified, that a transaction can be consummated. Moreover, if consummated, no assurance can be made that any such acquisition or partnership will profitably add to our operations.

**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of these risks and the use of financial instruments to mitigate our risk exposure.

Our Credit Facility with Comerica expired on August 31, 2009, at which time we obtained a three month extension. We are currently negotiating a new Credit Agreement. The interest payable under our existing revolving Credit Facility with Comerica is variable and based on (i) the bank's cost of funds or (ii) the 12-month LIBOR rate plus a fixed margin of 1.25%. The cost of the Credit Facility is affected by changes in market interest rates, credit risk spreads and credit availability. The interest rate in effect on the credit facility as of September 30, 2009 using the 12-month LIBOR Rate option plus a fixed margin of 1.25% was 2.52%.

At September 30, 2009, we had no borrowings on our Credit Facility, however we cannot make any assurances that we will not need to borrow amounts under this facility or that a new facility will be extended to us under comparable terms or at all.

At September 30, 2009, we had wholly owned subsidiaries in the Argentina, Cayman Islands, France, Germany, Hong Kong, India, Italy, the Netherlands, Singapore, Spain, and the United Kingdom. On February 18, 2009, we acquired certain patents, intellectual property and other assets related to the universal remote control business from Zilog, Inc. ( Zilog NASDAQ: ZILG) for approximately \$9.5 million in cash. In connection with this transaction, we formed our Cayman Islands subsidiary. Sales are typically denominated in local currencies, thereby creating exposure to changes in exchange rates. Changes in local currency exchange rates relative to the U.S. dollar and, in some cases, to each other, may positively or negatively affect our sales, gross margins, operating expenses and net income. The value of our net balance sheet positions held in foreign currencies may also be impacted by fluctuating exchange rates. From time to time, we enter into foreign currency exchange agreements to manage our exposure arising from fluctuating exchange rates that affect cash flows and our reported income. Contract terms for the foreign currency exchange agreements normally last less than nine months. We do not enter into any derivative transactions for speculative purposes. It is difficult to estimate the impact of fluctuations on reported income, as it depends on the opening and closing rates, the average net balance sheet positions held in a foreign currency and the amount of income generated in local currency. We routinely forecast what these balance sheet positions and income generated in local currency may be, and we take steps to minimize exposure as we deem appropriate.

Our foreign currency exposures are primarily concentrated in the Euro, British Pound and Hong Kong dollars. The sensitivity of earnings and cash flows to the variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currency. Based on our overall foreign currency rate exposure at September 30, 2009, we believe that movements in foreign currency rates could have a material affect on our financial position. We estimate that if the exchange rates for the Euro and the British Pound relative to the U.S. dollar fluctuate 10% from September 30, 2009, net income and cash flows in the fourth quarter of 2009 would fluctuate by approximately \$0.5 million and \$5.9 million, respectively.

**ITEM 4. CONTROLS AND PROCEDURES**

Exchange Act Rule 13a-15(d) defines disclosure controls and procedures to mean controls and procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The definition further states that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Table of Contents**

An evaluation was performed under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management to allow timely decisions regarding required disclosures.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

The information set forth above under Note 15 contained in the Notes to Consolidated Financial Statements is incorporated herein by reference.

**ITEM 1A. RISK FACTORS**

The reader should carefully consider, in connection with the other information in this report, the factors discussed in Part I, Item 1A: Risk Factors on pages 9 through 16 of the Company's 2008 Annual Report on Form 10-K incorporated herein by reference. These factors may cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the quarter ended September 30, 2009, we did not sell any equity securities that were not registered under the Securities Act of 1933.

Under our Credit Facility, we were authorized to acquire up to 2,000,000 shares of our common stock in the open market. Effective February 26, 2009, Comerica amended our Credit Facility by authorizing an additional 1,000,000 shares to be repurchased, capped at a maximum cost of \$13.0 million. Given our closing stock price at September 30, 2009, we were authorized to repurchase 2,636,630 shares. As of September 30, 2009, we have purchased 1,974,670 shares of our common stock, leaving 661,960 shares available for purchase under the Credit Facility. We repurchased 71,975 shares during the quarter ended September 30, 2009, and we may continue to repurchase shares of our common stock during the remainder of the year, if we believe conditions are favorable, or to manage dilution created by shares issued under our stock-based compensation plans. Repurchase information for the third quarter of 2009 is set forth by month in the following table:

| Period                                 | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number<br>of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet<br>Be Purchased<br>Under the Plans<br>or<br>Programs |
|----------------------------------------|-------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
|                                        |                                           |                                    |                                                                                                          |                                                                                                     |
| July 1, 2009 – July 31, 2009           | 5,617                                     | \$20.09                            | N/A                                                                                                      | N/A                                                                                                 |
| August 1, 2009 – August 31, 2009       | 15,073                                    | 19.58                              | N/A                                                                                                      | N/A                                                                                                 |
| September 1, 2009 – September 30, 2009 | 51,285                                    | 18.73                              | N/A                                                                                                      | N/A                                                                                                 |
| Total Third Quarter 2009               | 71,975                                    | \$19.01                            | N/A                                                                                                      | N/A                                                                                                 |



**Table of Contents**

**ITEM 6. EXHIBITS**

- 31.1 Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc.
- 31.2 Rule 13a-14(a) Certifications of Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc.
- 32 Section 1350 Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc., and Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 9, 2009

Universal Electronics Inc.

*/s/ Bryan M. Hackworth*

Bryan M. Hackworth

Chief Financial Officer (principal financial  
officer and principal accounting officer)

37

---

**Table of Contents**

**EXHIBIT INDEX**

| <b>Exhibit No</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                  |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1              | Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc.                                                                                                                                                                                |
| 31.2              | Rule 13a-14(a) Certifications of Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc.                                                                                                                                           |
| 32                | Section 1350 Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc., and Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350 |